103

REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL AND ITS IMPACT ON FARM COMMODITIES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 17, 23, AND APRIL 22, 1993

Serial No. 103–8

Printed for the use of the Committee on Agriculture

REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL AND ITS IMPACT ON FARM COMMODITIES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 17, 23, AND APRIL 22, 1993

Serial No. 103–8

Printed for the use of the Committee on Agriculture

U.S. GOVERNMENT PRINTING OFFICE

68–362 WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-041554-3

COMMITTEE ON AGRICULTURE

E (KIKA) DE LA GARZA, Texas, *Chairman*

GEORGE E. BROWN, JR., California, *Vice Chairman*
CHARLIE ROSE, North Carolina
GLENN ENGLISH, Oklahoma
DAN GLICKMAN, Kansas
CHARLES W. STENHOLM, Texas
HAROLD L. VOLKMER, Missouri
TIMOTHY J. PENNY, Minnesota
TIM JOHNSON, South Dakota
BILL SARPALIUS, Texas
JILL L. LONG, Indiana
GARY A. CONDIT, California
COLLIN C. PETERSON, Minnesota
CALVIN M. DOOLEY, California
EVA M. CLAYTON, North Carolina
DAVID MINGE, Minnesota
EARL F. HILLIARD, Alabama
JAY INSLEE, Washington
THOMAS J. BARLOW III, Kentucky
EARL POMEROY, North Dakota
TIM HOLDEN, Pennsylvania
CYNTHIA A. McKINNEY, Georgia
SCOTTY BAESLER, Kentucky
KAREN L. THURMAN, Florida
SANFORD D. BISHOP, JR., Georgia
PAT WILLIAMS, Montana
BLANCHE M. LAMBERT, Arkansas

PAT ROBERTS, Kansas, *Ranking Minority Member*
BILL EMERSON, Missouri
STEVE GUNDERSON, Wisconsin
TOM LEWIS, Florida
ROBERT F. (BOB) SMITH, Oregon
LARRY COMBEST, Texas
WAYNE ALLARD, Colorado
BILL BARRETT, Nebraska
JIM NUSSLE, Iowa
JOHN A. BOEHNER, Ohio
THOMAS W. EWING, Illinois
JOHN T. DOOLITTLE, California
JACK KINGSTON, Georgia
BOB GOODLATTE, Virginia
JAY DICKEY, Arkansas
RICHARD W. POMBO, California
CHARLES T. CANADY, Florida

PROFESSIONAL STAFF

DIANNE POWELL, *Staff Director*
VERNIE HUBERT, *Chief Counsel and Legislative Director*
GARY R. MITCHELL, *Minority Staff Director*
JAMES A. DAVIS, *Press Secretary*

SUBCOMMITTEE ON GENERAL FARM COMMODITIES

TIM JOHNSON, South Dakota, *Chairman*

DAN GLICKMAN, Kansas, *Vice Chairman*
COLLIN C. PETERSON, Minnesota
HAROLD L. VOLKMER, Missouri
JILL L. LONG, Indiana
CALVIN M. DOOLEY, California
DAVID MINGE, Minnesota
EARL POMEROY, North Dakota
CHARLIE ROSE, North Carolina
GLENN ENGLISH, Oklahoma
CHARLES W. STENHOLM, Texas
BILL SARPALIUS, Texas
GARY A. CONDIT, California
THOMAS J. BARLOW III, Kentucky
SANFORD D. BISHOP, JR., Georgia
PAT WILLIAMS, Montana

BILL EMERSON, Missouri
ROBERT F. (BOB) SMITH, Oregon
LARRY COMBEST, Texas
BILL BARRETT, Nebraska
JIM NUSSLE, Iowa
JOHN A. BOEHNER, Ohio
THOMAS W. EWING, Illinois
JOHN T. DOOLITTLE, California
JAY DICKEY, Arkansas

CONTENTS

MARCH 17, 1993

Witnesses

Submitted Material

April 22, 1993

Witness

REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL AND ITS IMPACT ON FARM COMMODITIES

WEDNESDAY, MARCH 17, 1993

House of Representatives,
Subcommittee on General Farm Commodities,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:05 p.m., in room 1302, Longworth House Office Building, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Glickman, Peterson, Long, Minge, Stenholm, Sarpalius, Barlow, Emerson, Smith, Barrett, and Ewing.

Staff present: John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Jan Rovecamp, clerk; Anne Simmons, Anne C. Keys, Merv Yetley, and Neil P. Moseman.

OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Johnson. Good afternoon. The hearing will come to order. I think it's appropriate during this agricultural week that we hold this initial hearing of the reconfigured General Farm Commodities Subcommittee, which brings together, as you know, the Wheat, Soybeans, and Feed Grains Subcommittee and the Cotton and Rice Subcommittee. I'm pleased that Bill Emerson, who was the ranking minority member on the former Cotton, Rice, and Sugar Subcommittee, will be working with us on this reconfigured subcommittee, and will help us with every other commodity with regard to program changes that no doubt we're going to be facing this coming 103d Congress.

Mr. Emerson is tied up with some other activity in his office right now on some farm-related issues. He'll be here when he can, but forwards to us information that we should go ahead and proceed, and he'll join us when he can.

Since there are a number of commodity groups in town this week because of National Agriculture Week, we thought it would be appropriate to hear from them in regard to their thoughts on the current economic situation facing their commodities, as well as their comments on how to achieve the cuts in agriculture that we will no doubt be asked to make in the name of deficit reduction.

Later this next week, we'll hear from the economists from CBO and FAPRI, Texas A&M, and from some general farm organizations. The President is set to release his fiscal year 1994 budget re-

quest on April 5, so we'll hear from the administration about the 14th, after we return from the Easter recess.

Budget resolution, of course, is being debated today in the House and Senate floors, and we can expect very quickly the definitive word on our budget marching orders. It appears the House budget resolution will call for $5.8 billion in cuts, in the Senate $4.5 billion, and $1.8 billion of that in discretionary cuts will be made by both the Senate and House Appropriations Committees. So we on the Agriculture Committee will be responsible, more than likely, for coming up with about $4.9 billion of cuts in mandatory spending.

Now, I think we need to keep in mind that all of the budget cutting is not yet implemented from even the 1990 budget decisions made in this institution. We have, for instance, in the 1994 crop year, the transition to a 12-month deficiency payment calculation. So more budget cuts come on the heels of the 1990 budget-cutting decisions, and it does have a cumulative effect, there's no doubt about that.

There's also no doubt, and I think all of us share this perspective, that it is in the interest of agriculture, it's in the interest of rural and urban America alike, that we reduce the Federal budget deficit, that we keep interest rates low, and that we promote economic growth. We can have some differences about how to get from here to there, but those are goals that we all share.

One of the things that I'm looking forward to hearing from the witnesses today, and throughout the course of these hearings, is going to be not only the impact of these prospective budget changes on the various commodities, but your views on how we meet those budget obligations. I'm sure that there's going to be no lack of testimony about negative consequences, but I think we're going to have to focus on where we go from here, and I'm hopeful that we can spend some time talking about triple base options, talking about targeting, loan rate adjustments, marketing loans, and a whole array of alternatives.

Some of these changes will not be required until the 1995 farm bill, but some changes will be necessitated almost immediately, and I think it's going to be very important that this committee work closely with the agricultural leaders all across this country, particularly those commodity leaders and family producers who are impacted on a day-to-day basis by the decisions that are made by this committee.

I think this committee as well needs always to keep in mind that we're not simply talking about numbers, we're talking about the lives and the prosperity, or lack of prosperity, of very real families, the vitality of very real counties and townships and small communities all across rural America. That's why we're here, and while we may sometimes get involved in some arcane discussion of agricultural policy and CBO and OMB numbers, we need always to keep in mind the bottom line, and that is an opportunity for prosperity, growth, and opportunity in rural America in general, while at the same time providing affordable high-quality food for the American public.

Thank you.

Also, any prepared statements submitted by the members will appear at this point in the record.

[The prepared statement of Mr. Emerson follows:]

BILL EMERSON
MEMBER OF CONGRESS
8TH DISTRICT, MISSOURI

HOUSE COMMITTEE ON
AGRICULTURE
HOUSE COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION

SELECT COMMITTEE ON HUNGER

Congress of the United States
House of Representatives
Washington, DC 20515-2508

OFFICES
SUITE 2454
RAYBURN BUILDING
WASHINGTON DC 20515-2508
202/225-4404

THE FEDERAL BUILDING
339 BROADWAY
CAPE GIRARDEAU, MO 63701
314/335-0101

612 PINE
ROLLA MO 65401
314/364-2455

STATEMENT OF CONGRESSMAN BILL EMERSON
BEFORE THE GENERAL FARM COMMODITIES SUBCOMMITTEE
REVIEW OF PRESIDENT CLINTON'S ECONOMIC PROPOSAL
AND THE RELATED ECONOMIC OUTLOOK FOR AGRICULTURE
MARCH 17, 1993

Mr. Chairman, I thank you for holding this important forum on the President's economic proposal and the related economic impact on American agriculture, rural communities, and local jobs. This issue is a timely one -- particularly given all that our local farming communities have at stake under the President's package.

Frankly, I am deeply concerned by the components of the President's economic plan -- specifically the proposed BTU Energy Tax and the Barge Fuel Tax or Inland Waterway User Fee. I am also disturbed by the impact of the proposed budget cuts on production agriculture and related jobs. Unfortunately, it appears the narrow margin of profit on a bushel of corn, acre of soybeans, or bale of cotton will get slimmer yet. President Clinton's proposal will undoubtedly hit farmers where it hurts the worst -- the bottom line.

We have proved to the rest of this nation that American agriculture is willing to pull its share of the deficit reduction load. However, I now fear that President Clinton's economic plan sacrifices the economic health of our rural towns and communities to pay for increased spending in other areas of the federal budget.

Certainly, an increase in taxes will have a tremendous negative affect on this nation's hard-working farmers and local agri-businesses. For example, the President's economic plan will increase barge fuel taxes by <u>525 percent</u>, from $.19 to $1.19 per gallon. This tax increase will decimate the domestic barge industry which is so critical to farm producers in the Mississippi Delta region along with producers throughout the Midwest and South.

Equally important, the increased costs of the Inland Waterways fuel tax cannot be passed on to the end purchaser in foreign ports. Rather, the lion's share of the tax will be passed on to the local farmer in the form of lower prices for grain at the farm gate. By unfairly singling out this industry so vital to our nation's transportation network, the new Administration is prescribing a serious blow to the viability of American agriculture and local jobs.

This tax coupled with the BTU Energy Tax could easily cost more jobs in the agricultural arena than the package purportedly intends to create. I am aware of industry estimates which state that the cost per gallon of gasoline will increase by over 7 cents, diesel fuel by 8 cents, and propane by 2 cents. When Missouri farmers are trying to squeeze a nickels worth of profit out of a bushel of grain, a bale of cotton, or a pound of beef or pork -- increasing the cost of production through more taxes just won't pay the bills.

Unfortunately, increased fuel costs are just the beginning. Fertilizer, pesticides, herbicides, machinery, and even the tires on farm equipment will cost more through this energy tax proposition. Manufacturing estimates show anhydrous ammonia alone could rise by as much as 40 dollars per ton. Drying, ginning, and grain storage costs along with transportation and electricity expenses will also go up.

The local banker and farm credit office must also be considered. The reduced profitability of farming through increased taxes, higher costs, more paperwork, and added government regulations will make the trip to the local banker more difficult than ever.

Adding another tax burden on the shoulders of farm producers and related farm industries won't balance the budget -- it will only make a bad situation worse. Greater tax burdens -- particularly in the nature of an energy tax -- only rob from those hard-working men and women who spend their lives providing the food and fiber for the people of this nation.

Mr. JOHNSON. With that, I would yield to my colleague from Nebraska for any opening statement that he might have.

OPENING STATEMENT OF HON. THOMAS J. BARLOW III, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. BARLOW. Thank you, Mr. Chairman, and thank you for calling the General Farm Commodities Subcommittee to order this afternoon to review the economic outlook for farm commodities and how the President's economic proposals will affect those commodities. I think it's particularly significant that you have called together as many as 10 different commodities groups to share with us today, to talk about our mutual concerns and interests.

It's particularly nice for me to welcome one of our panelists today from the State of Nebraska, a real, genuine corn farmer, Mr. Rod Gangwish from Shelton, Nebraska, who happens to be the chairman of the governmental relations committee of the National Corn Growers Association.

So welcome to all of our panelists, and thank you again, Mr. Chairman, for calling this subcommittee together.

Mr. JOHNSON. The gentleman from Minnesota, Mr. Minge.

Mr. MINGE. I have no remarks, Mr. Chairman.

Mr. JOHNSON. All right.

Mr. Ewing.

OPENING STATEMENT OF HON. THOMAS W. EWING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. EWING. Thank you, Mr. Chairman, and I, too, want to congratulate you on calling this meeting. It's certainly an interesting topic and one that all of us get asked about when we return to our districts.

I would like to comment that I think that all of us have the responsibility to help with the budget crunch—agricultural producers, the USDA, and everyone else. I think as we review this, I'm very interested in hearing what any of you witnesses may have to say in this regard. Agriculture has done quite a bit already, production agriculture, to help with the deficit.

There may be some disagreement, Mr. Chairman, on some of the President's cuts and his budget for agriculture, and I think that this is the place we need to work that out, and we need to try and come up with something that's agreeable to both sides of the aisle here, and also something that's good for agriculture. So I look forward to working on that.

Mr. JOHNSON. Thank you.

The gentleman from Oregon, Mr. Smith.

OPENING STATEMENT OF HON. ROBERT F. (BOB) SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. SMITH. Thank you very much, Mr. Chairman. In reviewing the whole agricultural impact as a result of some of the proposals that we have recently seen coming from the Clinton administration, I've taken the opportunity to look at maybe the smallest county that I have in my district in Oregon, which is an agricultural-

dependent county, and I've taken also the liberty to run this by an agricultural economist at Oregon State University to verify these numbers which I'm going to share with you.

Mr. Chairman, it appears to me and to Wallowa County, which depends upon agriculture, timber, and some mining and grazing, that this package is brutal to them. For instance, in the program it anticipates tripling the grazing fee to about $5.50 per animal unit month. Currently, we collect about $18 million from grazing fees. It's projected to go to $76 million, and that will price ranchers off the range.

A below-cost timber sales policy, coupled with a stalled salvage timber program that virtually prevents timber harvests in the Pacific Northwest and in Wallowa County, which eliminates the mills there and costs the county hundreds of family wage jobs. A 50-cent-per-acre-foot surcharge on irrigation water from the Bureau of Reclamation. A Btu tax on diesel and gasoline that will cost a typical wheat ranch in Oregon of 2,500 acres $1,125 per year in increased taxes. There's no way to pass that on.

A 500-percent increase in the inland waterway user fee—we depend upon the Columbia River for distribution and transportation—which will cost the average farmer another $1,125 per year in average transportation costs. The energy tax will also increase the cost of chemicals and fertilizer on the farm, we estimate by $800 per year.

The elimination of 0/92 will bring approximately 5 million additional acres of wheat into production, and it's impossible to project, I think, at this point the impact upon wheat should we go to the elimination of 0/92. A change which we're all looking at here to fund the problems we have in agriculture and the direction we have to reduce the cost of agriculture likely will be a triple base program increase from 15 to 25 percent, coupled with a 5-percent increase in set-aside programs, which we believe decreases net farm income from $3,100 to $6,200, depending on how the impact falls.

None of these include individual Federal income tax increases, cash rent inflation because of the $100,000 off-farm income cap being proposed, growth in both the cost of living and business expenses as a result of taxes throughout the economy, and the President's upcoming proposed health program that we hear could cost some $90 billion.

Mr. Chairman, this is an analysis of the impact of one small county in northeastern Oregon, typical, I think, of rural production agriculture in American.

Thank you.

Mr. JOHNSON. Thank you.

Obviously, this committee is going to be intimately involved, at least, on the mandatory payment side of making those budget decisions, and the parameters will be handed to us. It will be up to us, on the other hand, to figure out ways to find savings and to mitigate the impact on producers, and that will be our challenge.

Obviously, the President's plan and alternative plans all are tough, and it's going to come down to choosing our poison, to a certain extent, when it comes to revising agricultural policy over the next couple of years, but all the more reason that we need input

from the people invited to testify before this committee this week and next.

Why don't we begin with the first panel, and I want to particularly welcome Mr. Gordon Brockmueller, who's a board member of the American Oat Association from my home State of South Dakota, and Mr. Larry Diedrich, who's the first vice president of the American Soybean Association from South Dakota. Also joining us on that panel is Mr. Jeff Lundberg, who's president of the National Association of Wheat Growers from Cheyenne, Wyoming; Mr. W. Neely Mallory, Jr., who's president of the National Cotton Council of America from Memphis, Tennessee; Mr. Alfred G. Montna, chairman of the U.S. Rice Producers Group, Yuba City, California; and Mr. Alan States, board member of the National Sunflower Association, and the first vice president of the U.S. Canola Association from Logan, Kansas.

If those gentlemen would join us at the table, and we will proceed from there with the first panel. I'd caution that I think we may be expecting a vote sometime fairly soon. When that occurs, we will have to temporarily recess, but I'm hopeful that we can all come back as quickly as possible so we don't lose time and prolong the hearing more than necessary.

I would invite each member of the panel to summarize their prepared statement. Your written statement will be printed in the record. We also are going to try to abide by the 5-minute rule. The green light is on, and the red light will come on when the 5 minutes has expired. We don't want to be overly rigid, but, on the other hand, we do want to move things along so that we are able to cover all of the witnesses, because we have excellent witnesses for this hearing.

I would ask the members of the subcommittee to also keep that in mind in the course of their questioning. We want to try to abide by the rule in that regard.

I would begin with the first panelist, Mr. Gordon Brockmueller.

Again, Gordon, feel free to summarize or read your statement, whichever you're most comfortable with.

STATEMENT OF GORDON BROCKMUELLER, MEMBER, BOARD OF DIRECTORS, AMERICAN OAT ASSOCIATION

Mr. BROCKMUELLER. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you this afternoon to discuss the perspective of the American Oat Association regarding the economic outlook for the U.S. agricultural sector. I am Gordon Brockmueller, a farmer from Freeman, South Dakota, and a member of the American Oat Association board of directors. The membership of the AOA includes representatives of all aspects of the U.S. oat industry, from production to consumption.

The United States became a net importer of oats in 1982. Oat imports have risen steadily since that time and currently account for approximately 17 percent of this country's total annual oat use. Increasing imports resulted from a lack of attention to oats in Federal farm policy decisions and a world supply which was eager to meet the growing U.S. demand for food quality oats.

My message today is that the future direction, or lack of direction, of farm policy in this country may create situations where

other commodities join the ranks of oats as imported commodities. If this committee and this administration are not attentive to providing equity for agriculture during budget reductions, our production of agricultural products will suffer, and our self-reliance in food production may be in jeopardy.

Cuts of the magnitude suggested by this administration will put American agriculture at risk. Government will be asking American agriculture to bear an inequitable burden in the budget cuts, and as a result, other commodities may be placed in the same unenviable situation as oats.

The continued domestic shortfall of oats is of major concern to the AOA. We are extremely concerned about our growing reliance on foreign sources for a basic grain such as oats. We believe that American rather than foreign producers should be the beneficiaries of the growing consumer demand for oats, and we call your attention to the recent ERS Agriculture Outlook oat article summarized in the written text of this policy.

The domestic shortage and, thus, the need for imports is a direct result of farm policy enacted in 1981, 1985, and 1990. This policy created inequities for oats in relationship to other grains. The programs set oat target prices too low relative to other competing crops to provide sufficient price protection and incentives for farmers to grow oats. In fact, the oat target price level is so low as to be nonfunctional and, when compared to Federal returns on competing crops, actually provides a disincentive to grow oats. Simply put, farmers make more money from the market and from the Government when they grow corn, wheat, sorghum, or barley instead of oats. However, because oats is an environmentally friendly crop, we believe there may be an opportunity for Congress and the administration to provide some help for oats in the new administration's farm package.

During the last decade, most Americans have learned of the important nutritional benefits of eating oats. What most Americans, including some farmers, don't know are the environmental benefits of growing oats. Oats are an ideal low-input crop, which, when included in rotations, encourage crop diversity to control plant diseases, insects, and weeds, and to reduce soil erosion. Oats does all this and more. In addition to the direct value of an oat crop—the grain and the straw—oats have value as part of agricultural systems that include several other crops in the rotations. I have seen these benefits in my own cropping plans, and I can talk to this very directly.

Oats help conserve soil; require less chemical fertilizers, pesticides, and herbicides; reduce water contamination by agricultural chemicals; and provide better human and animal nutrition than other grains. We call your attention to the details of this concept which are outlined in our written statement.

We believe that the time has come to encourage producers to avoid continuous cropping. Congress and the administration could do well by increasing the incentives for rotations, and specifically for including oats in the rotations. We suggest that Congress and the USDA revisit the integrated farm management portion of the 1990 farm bill to implement what has, to this point, been a little-known and little-used provision which would encourage producers

to use oats in rotation. It is our understanding that local ASCS offices do not understand the current provision and often discourage producers from using it. This happened to me personally when I signed up at ASCS. No one was familiar with IMF, and it was not an option.

If the 1990 language were clarified and the incentives enhanced, we might benefit from increased U.S. oat production while encouraging crop diversity, which would be advantageous for the future of U.S. agriculture.

Thank you for the opportunity to present this overview today.

[The prepared statement of Mr. Brockmueller appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Gordon.

I think it would expedite things, if we have all the panelists testify. Then, we'll have an opportunity for the members to ask questions.

We'll go to, Mr. Larry Diedrich.

STATEMENT OF LARRY DIEDRICH, FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. DIEDRICH. Thank you, Mr. Chairman. Myself along with fellow South Dakotans are very privileged to have you serving as chairman of this very important subcommittee, and we appreciate you serving that for us.

My name is Larry Diedrich, and I'm a soybean and corn grower from Elkton, South Dakota, and first vice president of the American Soybean Association. ASA is a farmer organization representing 28,500 members across the United States in 29 States. I'm here today to help you as agricultural policymakers understand the true concern in rural America over the President's proposed changes in commodity and rural programs.

Mr. Chairman, soybean farmers, just as most citizens, want to support the President's bold move to control spending and reduce the deficit, and we are willing to do our part to accomplish these goals. However, rural Americans should not be asked to pay more than their fair share.

American farmers are facing uncertain needs with the delays in trade talks, faltering grain and oilseed sales to the former Soviet Union, and additional environmental compliance requirements. We cannot survive as an industry without stability in our commodity programs and the opportunity to compete for the world market.

Agriculture has contributed in the past to past deficit reduction programs and once again are being asked to contribute. This time our share seems to come out to about three times more cuts than the percentage of the rest of the budget factors, excluding nondefense domestic sector. Of the $150 billion proposed in spending cuts and fees for nondefense programs during fiscal year 1994 through 1997, 5.4 percent are in USDA-administered programs.

Mr. Chairman, I can assure you that agriculture will do its share to shoulder the burden of deficit reduction; however, we cannot survive if we are time and time again required to shoulder a disproportionate share of that budget cut.

The President's budget impacts agriculture in many ways, but I will highlight only those that are of special concern to soybean

farmers. I will begin by focusing on one problem that is specific to the oilseed industry and hits at the very heart of every soybean farmer: The loan origination fee.

The President's proposed plan would raise $900 million by increasing assessments on nonprogram crops by 66 percent in the 1995 farm bill. In practical terms, this means an increase in the origination fee from 10 cents that it currently is at to 17 cents per bushel for soybeans placed under the loan.

The origination fee has already reduced the effectiveness of the marketing loan by discouraging participation. According to ASCS calculations, the origination fee has cut soybean loan activity in half from the 1990 levels by increasing effective interest rates well above commercial levels. Even at the 2 percent rate, ASCS projects future use will continue to decline.

The origination fee is already preventing the loan from being a cost-effective marketing tool for soybean farmers. A higher fee of 3.33 percent will result in little or no use of the loan, negating the revenue gains projected by this plan.

I think when we look at this, we have to consider the people that will be paying the extra fee, and those are people that have two choices: Either to market their soybeans at harvest during harvest lows, or those people that are financially strapped and are not available to get loans at other places, and those people might include new farmers, young farmers, those that have been through a drought or some other disaster or, for some unknown reason, have encountered some financial problems. Are those the people that we want to be paying for this Presidential economic plan? I really don't think so, from what I've heard so far. We've got to keep that in mind as we look at the origination fee and increasing that particular part of the program.

No one wins with this proposed increase. The additional cost of participation will only further discourage utilization of the loan and will provide no benefit to the soybean farmers or the Federal Government. ASA is opposed to the origination fee and will strongly oppose any increase.

There are other aspects of the President's proposal that strongly affect American farmers, and I would like to mention a few of those that are of special significance to ASA.

One issue of major concern to soybean producers across the country is the broad-based energy tax that was talked about earlier today. This tax will affect virtually every aspect of farm activities, from the direct costs of diesel for tractors and equipment to indirect costs for pesticides and fertilizer. Rural Americans are also hit hard with increases in gasoline prices. We traditionally live great distances from towns where we must travel to obtain the basic services such as buying groceries, supplies, and receiving medical care.

If agriculture is to be asked to swallow this pill of the Btu tax, there are some things that I think we can do to make it a little more palatable. One of those would be if we could somehow take the indirect costs from being applied the Btu tax, those such as fertilizers and pesticides; and second, if you could exempt alternative biofuels such as ethanol and such as biodiesel or soy diesel from that tax also. That will help us in a couple of ways. It's going to

increase demand for our farm commodities back home, and I think it will give you a real boost as far as rural economic development, because those processing plants will be located next to the feed stock, which is out in rural America, back in the heartland, and not out in some major cities.

So those things will help rural America a great deal if we could possibly do that and make this particular tax a little more palatable for us to have to handle.

Mr. Chairman, soybean farmers are not only facing proposed changes in our domestic programs, but also in our export development programs. We are very disappointed with the President's proposal to reduce development-oriented foreign food aid by $245 million and to cut $35 million in funding for the Foreign Agricultural Service. Food assistance programs have been very important to the market for U.S. soybean farmers, and FAS is an effective agency in providing instrumental support for ASA's overseas operations. Any reduction in market development activities are counterproductive when we are facing tougher market challenges, especially in light of the fact that commodity programs are likely to shrink in the future.

In closing, I thank you, Mr. Chairman, and the members of this subcommittee for your time and your genuine interest in agriculture. I hope that you will remember that farmers want to do their part to reduce the Federal deficit and return our Government to solid financial ground. However, I do not believe these goals can be accomplished on the back of American agriculture.

Thank you very much.

[The prepared statement of Mr. Diedrich appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

We'll go next to Mr. Jeff Lundberg.

STATEMENT OF JEFF LUNDBERG, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. LUNDBERG. Mr. Chairman and members of the subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views to the subcommittee on current economic conditions in the wheat sector of the economy and the effect the Clinton deficit and stimulus package will have on this outlook. I'm Jeff Lundberg, president of the National Association of Wheat Growers from Cheyenne, Wyoming.

The U.S. wheat economy remains heavily dependent on exports. About one-third of each year's harvest is used domestically for bread, pasta, cakes, crackers, and other food products. Another 10 percent is fed or used for seed. The remainder is available to the export market. Total supplies in 1992–1993 amount to 3 billion bushels. This is not a record stock level, but it is nevertheless a very sizeable supply of grain.

Right now we are seeing a slowdown in export sales, primarily due to the lapse in commercial trade with the former Soviet Union and the lack of Chinese wheat buying. These two countries are the biggest wheat importers in the world, and they can have a significant upward or downward effect on the wheat prices and grower income. Prices now are about $1 per bushel below a year ago.

Ahead is another large wheat crop produced under another zero acreage reduction requirement. A big feed grain crop also appears to be in our future.

Regarding the halt in normal trade with the Republics of the former Soviet Union, we endorse Secretary of Agriculture Espy's strategy of seeking an interim trade solution for Russia and the other Republics of the FSU, while also developing programs and policies which are tailored to continuing grain sales and food assistance to this region. The latter will take time, and this means that the timing and extent of interim steps will have a big impact on U.S. markets and farm income now and in the years to come.

This brings me to other trade matters. The NAWG continues to seek implementation of an end use certificate requirement for imported grain and oilseeds similar to that now applied by Canada to entries of United States grain. The certificate would establish the necessary monitoring system to narrow the likelihood that foreign grain could be merged into U.S. cargoes destined to be exported under USDA-supported programs. By requiring the importer of record to take the responsibility for the foreign commodities he buys, the risk that a cargo of U.S. origin-only grain could be adulterated by one bushel of foreign grain would be greatly diminished. In doing so, it would not restrict the use of foreign grain in the U.S. market. It could still be processed, fed, or exported, but as the Congress has directed, it could not be exported under a U.S. taxpayer-supported program.

Recently, a binational panel issued a final report covering Durum wheat imports from Canada. The report was the result of a dispute settlement proceeding conducted under the provisions of the United States-Canada Free-Trade Agreement. Above all, the panel report fully exposes the inequities contained in the FTA. It illustrates how Canada's only discipline on exports of wheat to the United States is to sell above the Canadian Wheat Board's initial payment to growers, a price which is typically considered to amount to 80 percent of a Canadian farmer's season average price. This is an untenable and injurious situation that will have to be addressed by the administration and Congress in some manner soon.

The United States must also find a way to address Canadian eastern-bound rail freight subsidies through Thunder Bay. United States producers are being severely harmed by Canada's use of these subsidies. The FTA's treatment of these de facto export subsidies as domestic subsidies is a long reach for United States wheat growers who find themselves unable to compete in their own domestic market because of unfair Canadian imports.

Finally, the Durum wheat panel report has an impact on how U.S. wheat producers should view the North American Free-Trade Agreement. Despite its best intentions, it should be clear that the NAFTA, as written, would do nothing to restrict the use of domestic or export subsidies into the countries covered by the agreement. The problem of Canadian transportation subsidies must be addressed in a binding and satisfactory way within North America.

We've been asked about the content of U.S. farm policy and the effect of President Clinton's proposed economic package on these programs. The largest impact on wheat farmers in the Clinton budget is the proposed 10 percent expansion of triple base acres to

25 percent. Under this plan, one-fourth of a farmer's commodity program bases would not be subject to income protection. This is the rough equivalent of a 25 percent cut in the target price program. I want to add that triple base is particularly unfair to wheat farmers who lack alternative planting options.

Growers also would be hit hard by plans to eliminate the 0/92 program. Elimination of the 0/92 and 50/92 programs will only produce budget savings if land set-aside requirements are increased for all program crop farmers. For growers, these programs have evolved into a risk management tool which can be used to mitigate the effects of drought, flooding, hail, and other weather calamities.

The President's proposal would also scrap the current crop insurance program and replace it with an untested experiment. The savings would come by cutting an already underfunded program and would move the Federal Crop Insurance Corporation to an area-yield plan under which a farmer is paid only when the entire county has a loss in yield. While crop insurance is not the perfect program, the concept of societal investment in risk management for food and fiber is sound. Extensive reform of crop insurance was initiated in the 1990 farm bill, and these changes should be allowed to take root.

This concludes my remarks, Mr. Chairman. Thank you very much.

[The prepared statement of Mr. Lundberg appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lundberg.

We'll go next to Mr. Mallory.

STATEMENT OF W. NEELY MALLORY, JR., PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA

Mr. MALLORY. Thank you, Mr. Chairman. My name is Neely Mallory, and I'm president of the National Cotton Council of America. I want to thank you for the opportunity to appear before you today to report our view of the state of the cotton economy.

Let me begin by extending to you our congratulations on being named chairman of this important subcommittee, and I ask you to extend our congratulations to Mr. Emerson for being selected ranking minority member. I want you to know that the cotton industry is committed to working with you and your colleagues to address the issues confronting our industry.

We are pleased to report today that the U.S. cotton economy is surprisingly strong, given the generally poor economic conditions in the United States and even worse conditions in other parts of the world. Last year we had a record level of consumption by American consumers. The U.S. mill use was at a 25-year high, and exports were at a respectable level, despite a large global surplus of cotton.

The one negative in the cotton situation is the low price and the resulting higher program costs brought about by large foreign stock and fire sale pricing by Central Asian Republics of the former Soviet Union. But even this situation could be worse. The stock accumulation in the United States could be as it was before the marketing loan, and we could be looking at big costs stemming from loan forfeitures plus large and costly set-aside programs to work down

the stock. We always face low prices when world stocks are too high, but the marketing loan forces the world to share the burden of supply management and lessens the detrimental impact on the U.S. economy.

Mr. Chairman, we're able to deliver a generally positive report on the U.S. cotton economy, because we have a program that works quite well. But after 7 years of highly satisfactory performance, we are now concerned that its effectiveness could be undermined by budget-driven policy changes. A number of specific concerns are spelled out in the report submitted with my written testimony.

The report notes, for example, that agricultural spending has been reduced by two-thirds since 1986, while total Federal spending continued to rise and the deficit has soared. We are particularly concerned that any substantial reduction in agricultural spending would be made at a very critical juncture in GATT negotiations. While U.S. farm spending has been ratcheted down, the EC has more than doubled farm spending since 1986, and USDA officials tell us the EC would not have to reduce spending from these high levels under the terms of GATT. Clearly, substantial additional cuts could be viewed by the EC and others as a signal there is no longer a need to negotiate, since the United States would be taking unilateral action.

Mr. Chairman, as we understand the budget resolution recently reported by the House Budget Committee, it would require cuts of almost $5 billion in agriculture's mandatory programs during fiscal years 1994 through 1998. While the cuts in fiscal year 1994 and 1995 would be relatively small, the cuts in fiscal years 1996, 1997, and 1998 would be large. Our concern is that this subcommittee could find its policy options significantly limited when developing the 1995 farm bill. We also understand there are significant cuts slated for discretionary programs. These, too, are troubling to our industry, an industry that needs effective research programs to ensure that we remain competitive in the world fiber markets.

The budget resolution also includes a Btu-based energy tax. Our initial analysis indicates the tax could add about $2.50 per acre to the average cost of production. Additional energy-related costs would be incurred in downstream processing, handling, and transportation, many of which are very energy-intensive. Synthetic fiber producers also use large amounts of energy, but if feed stocks are exempt, they may not be quite as seriously affected as cotton producers.

Obviously, a Btu tax will add to the cost of production and processing, and since prices are set by world market, there's no assurance that the increased cost can be passed on. On a positive side, the investment tax credit and capital gains proposals would benefit agriculture. We were relieved that the budget package does not include any reduction in the estate tax deductions.

Mr. Chairman, we are mindful of the President's challenge to offer specific alternatives to the policies one doesn't like. We are concerned with the magnitude of out-year cuts and the potential impact on future farm policy. We hope the level of reduction in the ultimate resolution approved by the Conference Committee will be closer to the level approved by the Senate committee last week, which is 50 percent lower than the proposal by the House. We also

hope the subcommittee and the full committee will reject any proposals to make reductions by resorting to targeting or means testing. We will pledge our cooperation in working with you and your colleagues to maintain viable and effective programs.

Again, thank you for the opportunity to appear here today.

[The prepared statement of Mr. Mallory appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

We'll move next to Mr. Montna.

STATEMENT OF ALFRED G. MONTNA, CHAIRMAN, U.S. RICE PRODUCERS' GROUP

Mr. MONTNA. Thank you, Mr. chairman. My name is Alfred Montna. I'm Chairman of the U.S. Rice Producers' Group, an organization that represents the majority of rice producers in the major rice-producing States. I'm a producer from California, and I'm also chairman of the Farmers Rights Cooperative in that State. I appreciate the opportunity to testify before your subcommittee today. I congratulate you on your chairmanship and look forward to working with Mr. Emerson and the rest of the committee, both old and new, as it's newly constituted.

Rice is a nutritious product and the mainstay in diets of many persons in our world population. For the 1992–1993 marketing year, it is estimated that the United States produced almost 180 million hundredweight of rice. The principal rice-producing States are Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. Rice production, processing, and marketing is a $3 billion industry and is important to the local economies in each of the States. Rice is used domestically in packaged form, cereals, processed foods, and beer. The balance is exported. Farmers, millers, shippers, farm suppliers, aerial applicators, package makers, equipment manufacturers, warehousemen, port authorities, stevedores, and related businesses all have a stake in the economic health of the rice industry.

The United States is the second largest exporter of rice in the world. Exports from the United States represent approximately 18 percent of world exports. Exports from the United States are predominantly commercial exports, although rice is also exported under the various food assistance programs. The United States is not the primary rice-producing country, and, accordingly, domestic and world market prices are not determined by domestic production, but rather by rice produced abroad, predominantly in Thailand.

As you know, in 1985 the legislation governing the rice price support program was changed to a target price and marketing loan program so that producers could obtain a loan at the specified rate and redeem their loan at the world market price, as determined by the Department of Agriculture, if it should be lower than the loan rate. This was supplemented by deficiency payments between the target price and loan rate. The program was a marked departure from the previous program under which producers received a loan at a high support rate and would forfeit their collateral—the commodity—to the USDA if the market price was at a lower level. This

resulted in ever increasing stocks, causing large losses to the Government and bypassing commercial markets.

The program has proved highly successful. Government stocks were depleted and producers were encouraged to use commercial channels for moving their rice onto the market. This program was initiated at the same time for cotton and has since become a model for other crops. It is our hope that it is continued in the future.

From the time the program was initiated until the present time, the benefits under the program have been reduced. Initial reductions came through reductions in the target price. The 1990 farm bill initiated reductions through a different device, namely through the so-called triple base, under which a producer would not receive payment on 15 percent of the acreage that was put under the program for that year. In effect, it represents a 15-percent reduction in payments. Additionally, more and more production has not received income support through deficiency payments as yields have increased while payment yields have been frozen at historic levels.

Chairman de la Garza has spoken at length concerning the budget cuts that have been made in agricultural programs, cuts that are disproportionately severe to the agricultural programs as contrasted with other sectors of the economy. Agricultural outlays account for less than 1 percent of total Federal spending. Even if farm program spending were completely eliminated, the impact on deficit reduction would hardly be noticeable. We recognize that agriculture must bear its fair share of the cuts in the future as attempts are made to bring the budget deficit under control, but only its fair share.

We note that once again in the House severe cuts in the agricultural commodity programs have been recommended by the Budget Committee. These amount to some $4.9 billion over a 5-year period, the amount recommended by the administration. These cuts, again, are proportionately far in excess of the cuts that are projected for other segments of the economy and, if agreed to, will only hasten the exit of farms from rice production in certain areas of the United States. We also note that the Senate Budget Committee has recommended a smaller cut for the agricultural entitlement programs, a cut of some $2.7 billion. We strongly recommend that members of this committee press for acceptance of the smaller figure. Continuation of the farm programs in their present form are needed to sustain farm income as the farm economy adjusts to greater and greater reliance on receiving its returns entirely from the marketplace.

There appears to be a perception among the uninformed that the rice producers are receiving Government subsidies that are making them rich. This is far from the truth. Per-acre costs of production of rice are particularly high because of the cost of inputs, including irrigation water, drying expenses, seed, fertilizer, and energy. These costs have been increasing in the last few years at the same time that benefits have been declining. In some rice-producing areas, producers are operating at a loss and are discontinuing production; in other areas, margins have been decreasing to the danger point. If one takes account of full economic costs on a national basis, returns from rice production are only slightly more than the total cost of production.

Before long, the Agriculture Committee will be faced with the need to make decisions on how the cuts are to be apportioned among the various agricultural programs. At this time, I would like to make some general recommendations. We will be making more specific recommendations at a later date, after we have reviewed certain studies that we now have in progress with our major land-grant universities.

In reducing Federal outlays for the agricultural programs, they should be fashioned so as to protect farm income to the extent possible. Any cuts in farm income impact adversely not merely on the producers concerned, but, as I stated at the beginning of my testimony, on the rural economy as well. Producers that discontinue farming and other persons in rural areas that lose jobs as a consequence will probably join the migration to the cities, the net result being further pressure on the Federal budget.

If one must make cuts in the commodity programs, we recommend that the 50/92 program be left intact. It's important as a type of disaster assistance to provide relief in the event of prevented planting when there is a drought, as occurred in the past few years in California. It is also important for environmental reasons to provide additional wildlife habitat, an opportunity to rotate acreage of production, and for income stabilization.

Likewise, we do not support the means test as a prerequisite to program benefits. This is a proposal that has originated with OMB year after year and, with good reason, has never yet been agreed on in Congress.

We also wish to comment on the proposed energy tax, as my colleagues have here today. We greatly oppose it, and for all the reasons they have cited. Farmers cannot pass along this tax to anyone and will have to absorb it and be caught in the continued cost-price squeeze that we're all in today.

In order to prosper in the long run with reduced Government assistance, rice producers must decrease their costs and increase their markets. Research programs are focusing on methods to increase yields with fewer inputs, but just as importantly, we need improved access to foreign markets. If we have markets, we need reduced Government participation. To this end, we have encouraged the administration to negotiate in the Uruguay Round for improved access to the European market, which is gradually being lost by unfair production subsidies. We need access to Pacific Rim countries which are now completely barred, countries such as Japan, Korea, and Taiwan. If unsuccessful in the Uruguay Round, we are poised to join with the Rice Millers Association in renewing a section 301 petition to this end.

Additionally, we are supportive of the NAFTA and hope to see it come into effect as scheduled on January 1, 1994. NAFTA provides for a 10-year phaseout of the tariffs on imported rice from its present level of 20 percent on milled rice and 10 percent on paddy rice. Mexico is already a major market and promises to become an even larger market as its rice tariffs are reduced under NAFTA. Mexico is increasingly dependent on imported rice due to decreasing production and trade liberalization, and congressional approval of NAFTA would do much to assure that the U.S. obtains major benefits from this potential.

This concludes my remarks, Mr. Chairman. I'd be pleased to respond to any questions. Thank you.

[The prepared statement of Mr. Montna appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

The last member of this panel, Mr. States.

STATEMENT OF ALAN STATES, MEMBER, BOARD OF DIRECTORS, NATIONAL SUNFLOWER ASSOCIATION, AND FIRST VICE PRESIDENT, U.S. CANOLA ASSOCIATION

Mr. STATES. Good afternoon, Mr. Chairman and Mr. Glickman. I'm Alan States from Kansas. I'm a wheat, grain sorghum, sunflower, and canola producer. I appear on behalf of the board of directors of the National Sunflower Association and the U.S. Canola Association.

Generally the 1990 farm bill is working well. The added flexibility has allowed us to farm the farm rather than farm the program. This is due in large part to the flexibility of the 0/92 and the 50/92, the ability to substitute some nonprogram crops on the 0/92, the minor oilseeds, and, finally, the enlightened corn-sorghum compromise that tied payments to production history rather than to actual plantings.

This added flexibility, along with programs such as the export enhancement program and the sun oil assistance program, which attempt to neutralize European subsidies, have been key factors in increasing our competitiveness and market share in the world market. Because of this, a new crushing facility has been opened in Goodland, Kansas, to supplement the three existing sunflower crushing plants in the Dakota-Minnesota area. Sunflower prices in both growing regions are now near $11 per hundredweight compared to the prices at or below the $8.90 national average loan rate of a year ago.

The plan that the Clinton advisors have put forth gives me a feeling of deja vu. They're similar to the proposals of the last two administrations and, like those proposals, focus exclusively on reducing outlays without regard to the effects on policy.

The first point I'd like to make is that the proposal to increase the normal flex acres will force our farmers to compete directly against the treasury of the European Community, which massively supports and subsidizes their production and thus distorts production. Increasing the NFA prior to a good GATT agreement amounts to unilateral disarmament in the midst of a battle for world market share.

Next point. The error is further compounded by the proposal to eliminate payments to those earning more than $100,000 of nonfarm income. Now, while making good political rhetoric, it doesn't make economic sense to cause the breakup of some of our largest and most productive farmers in the face of unfair European competition. In addition, my great aunt Clara is pushing 90 years old now and lives off the landlord share of 140 acres of wheat, and it would appear that we're going to require her to bring her 1040 tax form into the ASCS office in order for her to get her payments. You know, it's tough enough for me to explain to her why she's got to fill out a 4-page form that says she's a person, let alone why she's

got to spend 2 years of her income to rebuild terraces when she lives in low-income housing.

The next point is a proposed increase in the loan origination fee. The purpose of the loan is to provide cash flow that enables producers to orderly market their crop. The proposal to increase the origination fee destroys this tool, and it will cost more than it saves. Even the CBO says the administration figures are off base.

Finally, Mr. Chairman, my organization is deeply disturbed by the elimination of the 0/92. The 0/92 is budget-positive compared to the alternatives. If eliminated, farmers will be forced to plant their base crops up to their base acres in order to protect their base and draw their payment. This will add to the production of the crops that are in surplus, depress the prices even further, and add to the cost of the deficiency payment, which they will collect in full instead of the 92 percent that they would collect under 0/92.

In fact, we have a word for this in Kansas that Mr. Glickman recognizes very well, but today—Saint Patrick's day—I think we'll use another word called "blarney." Some of the individuals that make these proposals, I think, not only have they gone across the water and kissed a stone; I think they swallowed it. [Laughter.]

Keeping with the spirit of the times, I believe that. If I'm going to criticize the proposal, I think it's best that we come up with a better solution. I would suggest that we use the corn-sorghum compromise as the basis for the next farm bill, then bring wheat and maybe some other program crops into that agreement. Farmers would then have the ability to plant crops, whatever program crop they want, on their pay acres, and they could do so without chasing program payments. That way they could have their pay acres over here, plant what they chose within that, and then have their nonpay or normal flex acres over here. In other words, they would be allowed to farm the farm, and it wouldn't cost the Government any more than it does now.

But think about the simplicity. You could then go in and, because you wouldn't have to report a lot of this information to the ASCS committee, you could start downsizing and consolidating ASCS committees and save your money there, rather than in the income support payments to the farmers. So I would think that would make some budget sense and do a lot of good.

Now, the administration is making some proposed changes in farm policy. If we are in fact, for budget reasons, moving away from a supply management and price support concept of farm policy, I think we should do that as a conscious decision and with careful deliberation, not just as a reaction to budget cutting. The energy tax is also going to have a major impact in agriculture and must be approached with the same care.

In closing, Mr. Chairman, I believe it was beneficial that Congress chose to schedule the farm bill for consideration during the third year of each administration's term. That delay allows all concerned to review the policy changes for at least 2 years before they write a new law. Hopefully, we will use this time wisely.

Thank you, Mr. Chairman. I'm available now for questions.

[The prepared statement of Mr. States appears at the conclusion of the hearing.]

Mr. JOHNSON. Well, thank you, and I want to thank all the members of the panel for the excellent insights that you're sharing with this committee, not only for those of us who are here, but for all the staff and other members who also will benefit by your insights.

It appears to me that there is one particular point of consensus that everyone on the panel shares, and that is a desire for the cuts and the taxes to go away. We may have to consider plan B, however, because we have President Clinton's plan, which is subject to no lack of criticism, but alternative plans—and we haven't seen all the detail, because the detail is not always spelled out—similarly hit agricultural budgets. So regardless of whether it is Clinton's plan or alternative plans being offered, we are under the gun.

I'd be interested if any of you would care to make a recommendation of how you would reduce spending on your commodity programs if you had to do it. Your first preference, obviously, is not to do it. But if you were forced to do it, is there a particular poison that anyone would care to choose? Does anybody care to venture that far out on a limb already early in the discussions?

Mr. STATES. Yes. I think we should look at consolidating the bases, as I said, and add to the flexibility of the 0/92 and the corn-sorghum compromise, and simplify the reporting to the ASCS. I think that is a step in the right direction. But we have to do that in conjunction with the GATT talks. All of this is related. We simply can't do this too quickly.

There are some major things that we could do in crop insurance. It simply doesn't work very well the way it is. It could be simplified or handled by private contractors, maybe handled like an IRA account, where they could set some money aside from year to year and then draw it back out later as they needed it. You could even, in that sense, get the Government completely out of it. It could be handled by private insurance companies or whatever.

Mr. JOHNSON. I think that is worthy of looking at, and we are going to be faced not only with deficiencies within USDA, but some tough choices. Most of them will not come until the 1995 farm bill, but nonetheless they're on the horizon, and we're going to have to be looking at expanded triple base, targeting, adjustments in loan rates, marketing loans, the cure that was always proposed to us by past administrations—just reduce the target price—means testing. All of them are on the table, and we're going to have to be evaluating each and every one of them. We want to do it in the context of your input from each of your commodities, and I want to emphasize that.

Let me just ask a couple of additional questions.

Mr. Diedrich, what do you think that this expansion of triple base to 25 percent—what kind of impact would that have on soybean producers?

Mr. DIEDRICH. I think if you look at farmers in general, probably that's about as easy of a medicine to swallow, at least from my perspective on our farm. Giving us the flexibility to adapt to market signals is something we've not had in previous farm bills up to the 1990 farm bill, at least in recent memory anyway. It's going to, I think, no doubt, as long as we can maintain soybean markets, increase the amount of acres of soybeans as people have the flexibility to move within and without the markets.

The thing that will be the key to that, if we move to more flexibility where we're entering a market-oriented situation, we need to be sure not to cut off our tail as far as marketing the product overseas and allowing our organization and other fellow organizations to promote our product overseas. We export half of our soybeans, and we're going to have to continue to do that if we're going to be able to plant more acres of soybeans and plant them profitably.

Mr. JOHNSON. Gordon, do you have any specific suggestions on what you would do to improve the integrated farm management option so that it becomes a more viable alternative?

Mr. BROCKMUELLER. I don't have all the details on that, Mr. Chairman, but I think possibly lessening some of the restrictions on harvesting crops that are planted in rotation would be helpful. Now, the IMF lets you plant soil-building crops on corn and wheat program bases, and yet there are some restrictions on harvesting and utilizing those crops. Also, the deficiency payments on IMF acres aren't guaranteed like they are in 0/92, and that might be an area for you to look at.

Mr. JOHNSON. Mr. Lundberg, I appreciated your comments, and this subcommittee has been and will be putting pressure on the administration to be more aggressive on our Canadian trading problems. In fact, I think we'll be holding hearings either here in DC or out in the field, in the northern Plains areas probably, and I look forward to working with you on that issue.

Do you sense right now a strong preference between crop insurance or disaster insurance, assuming that we finally have to come to some resolution to go one way or the other?

Mr. LUNDBERG. No. I guess our real concern is to make the crop insurance program a more viable program, and what's been offered thus far as an alternative hasn't particularly been acceptable. But if we can make this program actuarially sound, the budget exposure, I would assume, would not be nearly as much.

Mr. JOHNSON. Mr. Mallory, could you update us on whether USDA agrees with you about the dumping of cotton by the Central Asian Republics, increasing the costs of the cotton program? Have they come around to concur with you on that?

Mr. MALLORY. They agree to the fact that it has lowered the price of world cotton. There is not necessarily agreement on how much it's done it.

Mr. JOHNSON. Have they been working with you in any ways to counter that activity at this point?

Mr. MALLORY. Not to my knowledge.

Mr. JOHNSON. There's no policy adopted at this point?

Mr. MALLORY. No.

Mr. JOHNSON. The red light is on, and I've been trying to enforce the red light rule here.

Before I turn to Mr. Ewing, I do want to welcome Mr. Glickman to the subcommittee, as well as Mr. Stenholm, but Mr. Glickman in particular, who has previously chaired the Wheat and Feed Grains Subcommittee, and very ably, and is over chairing the Intelligence Committee now, comes back as senior Democrat on this committee, and may wind up with the chairmanship of this committee a couple years down the road when we deal with these farm

bill issues. I've been advising Dan that I sure hope he can fix this all up again for us 2 years down the road, if that's the case.

Mr. GLICKMAN. We'll get the CIA in here to take care of all the problems. [Laughter.]

Mr. JOHNSON. That's right. This may require some undercover work to get out from where we're at.

In the order of things, I would turn to Mr. Ewing for any questions that he might have.

Mr. EWING. Thank you, Mr. Chairman.

I want to bring greetings from the ranking minority member, Pat Roberts, to Alan States, who is from Mr. Roberts' district, and I know he would like for me to do that for you since you're a guest here at this committee.

Mr. STATES. Thank you.

Mr. EWING. In the proposal of President Clinton for the reduction in the agricultural budget, the figures are maybe a little hazy—and this question is going to be to all the panel—but cuts of $9 billion to $12 billion, in that range, and yet the total savings on the agricultural budget is only about $3 billion. Now, the difference, of course, is we're cutting farm programs, and we're increasing food stamps and other social programs that are included in the agricultural budget.

Would you characterize the President's budget as it relates to agriculture as being farmer-friendly? I'd like each of you to address that.

Mr. STATES. I guess we'll start at this end. As far as farmer-friendly, I think we have to be competitive, and we have to look at jobs and income. If this in fact helps agricultural income and jobs in rural areas, then we can consider it farmer-friendly. If it in fact discourages jobs and hurts farm income, we have some problems. I think that on the whole here these recommendations have some flaws, and in the spirit of cooperation, I hope we can improve these proposals.

Mr. MALLORY. Congressman, I'd say from the view of the cotton industry, we have a program that's working well. As I reported, consumption of cotton is near an all-time high in the United States, and our exports are great. We're moving cotton in world trade. If we saw these budget cuts having a marked effect on the cotton program today, we would say they're definitely not farmer-friendly. We've got a good thing going. At certain periods of time the world price of cotton is going to be forced down by fire sale, as I reported in my remarks, and at that time we feel like we need help from the U.S. Government. But otherwise, we've got a good program, and we'd just like to keep it.

Mr. DIEDRICH. I think to decide whether this is a farmer-friendly or a nonfarmer-friendly program, you have to really look at some other things we have on the table, other than this particular budget program, and I'm talking about things like GATT, successful agreement of NAFTA. We have to look at other alternative ways of moving our product domestically, whether there are alternative uses for our product.

So there are a number of things that we have to look at that if we can get some of the other areas covered, then all of a sudden this particular budget matter isn't nearly as severe of a problem as

what we'd like to make it. So I guess that I would encourage that we not just close and be narrowminded about it, but let's look at all the alternatives we have to create income from the market so we don't have to bank on the farm programs. Because I think farmers in most areas of the country are willing to take their income from the market and not from the Government.

Mr. BROCKMUELLER. Do you want each of us to respond?

Mr. EWING. Yes, please.

Mr. BROCKMUELLER. I would agree somewhat with Larry here. I don't see the cuts in themselves as farmer-friendly, although I haven't seen a lot of the budget cuts in past years as farmer-friendly, either. It seems like farm programs are a good target. But along with Larry's comments—if subsidies can be somehow offset by incentives in other areas—if free trade works to a farmer's advantage—I think most of us would gladly take less subsidy and more at the marketplace. I don't think there are very many farmers that you could find who wouldn't support that.

Mr. MONTNA. Mr. Ewing, for the U.S. rice industry, market development is what it's all about. Give us markets, and a lot of our needs from the Government are going to go away. Market development has been lagging for some time, we think, in the last few years, and we need an aggressive trade policy in this country, and then we'll be able to determine, as the chairman asked, where we would take those cuts.

If the cuts are coupled with increased markets and market orientation, as the 1985 farm bill was designed to do, we can play both ends of that game, and I think agriculture will gladly play both ends of that game. But when we see food stamps increased by $6 billion and the commodity programs taking another tremendous direct hit, it's very difficult to rationalize what good that is for rural America as we see our farm communities getting smaller and smaller.

So it depends what the package ends up being and what committee comes to us to ask us to cut is how we can determine if this is a farmer-friendly program. That will be the test for it.

Mr. LUNDBERG. Mr. Ewing, it's pretty difficult for me to go home and tell my friends out in the country that we have a proposed effective $3 target price for wheat. Having said that, it seems to me that if we can establish, maintain, encourage an aggressive export policy, we don't need to worry about what the target price is all about.

Mr. EWING. Thank you. My time is up.

Mr. JOHNSON. Thank you, Mr. Ewing.

I'll turn to Mr. Glickman.

Mr. GLICKMAN. Thank you very much, Mr. Johnson. It's a pleasure to be here.

Let me just explore a couple of ideas here. I'm not going to say that they necessarily mean good or bad policy, but let's say raising the loan rates on wheat and corn for sure, and let's say 10 percent would end up saving several hundred million dollars, enough so you could forestall cuts in target price or increase triple base. How would you feel about that? Anybody?

Mr. Lundberg.

Mr. LUNDBERG. Mr. Glickman, I've looked at this loan rate business a little bit, and I'm not comfortable with it yet. The reason I'm not comfortable with it is effectively now we're at a $2.43 or $2.45 area, and I don't want to have to participate. I may be evasive in my answer, sir, but what I guess I'm saying is that I don't think that our commodity price should be such that we'd need to participate in a program of that nature, at that level.

Mr. GLICKMAN. What I mean is, what if we increased it to $2.70 or $2.80?

Mr. LUNDBERG. You're getting closer. [Laughter.]

Mr. GLICKMAN. I know at some level it becomes market interfering. I understand that. But in terms of trying to get some choices here that are more palatable, I'm just looking.

Mr. States.

Mr. STATES. One comment I would make. Basically, the loan level, if it's used as a price support system, has a bit of a problem. Now, if it was a marketing loan where we could not forfeit, that acts as a floor under our perception of our income. It may then, to some extent, offset what the Europeans are doing to us. So for that reason, it has some merit. Then you could arguably go away from some of the EEP's and the SOAP's.

It's a question, I think, of dollars. Which costs more, the marketing loan or the enhancement plan? I think the wheat marketing loan to combat the Europeans and maintain market share may have to be somewhere into the $2.90 to $3 or $3.10 range. If it's low enough that it doesn't do us much good or doesn't perceptually give us a net, it may not help much.

Mr. GLICKMAN. It would have to be high enough to provide some impact and also to reduce the deficiency payments, too.

Mr. STATES. That's true. Well, it may not save money if it's a marketing loan——

Mr. GLICKMAN. It may or may not.

Mr. STATES. There's no floor on prices; therefore, it wouldn't necessarily affect total payments. Your normal flex acres will do that. The key, though, is not to have it so high that it acts as an artificial incentive to produce.

Mr. GLICKMAN. Right.

Let me ask another question. We have something called the market promotion program. I don't know if anybody has referred to it here. This year it's frozen at $148 million. This is the program whereby the Government provides a variety of help to sell products overseas. It's been somewhat controversial because, in some respects, it's gone directly to American companies to promote their branded products. If we're in a box where we have to, let's say, either cut something like that or increase unpaid flex acres, does anybody have any thoughts on that?

The reason why I ask is because a lot of the programs here have their own check-off programs, so you're doing a lot of the same stuff theoretically anyway, and I'm just wondering how much would be lost in terms of the commodities you got there if we were to make a choice of not increasing the unpaid flex acres and doing something like, hypothetically again, zeroing out the market promotion program. Again, unpalatable choices, but I'm just trying to get you to respond.

Mr. Diedrich.

Mr. DIEDRICH. I had a chance to be overseas and see what some of the MPP programs can do, and also being with an organization that our budget from MPP is going to go from somewhere around $13 million down to somewhere around $3 to $4 million this year. The thing that disappoints me most about MPP is the direction it is now heading after the McDonald fiasco and whatever else it might be. It's become a program, from our point of view, that has become a lot less usable. Plus, the direction of where our budget is going, it's no longer with a bulk commodity like soybeans, but to more of a specific program—California oranges or grapefruit or whatever it might be—that's labeled specifically U.S. product, and that becomes very unusable for someone like us.

It's disappointing to see that. I hate to see MPP go, but on the other hand, the direction it's headed right now, to me, is not a good direction.

Mr. GLICKMAN. Does anybody else have any thoughts on that?

Mr. Montna.

Mr. MONTNA. Mr. Glickman, our industry uses it extensively in cooperation with FAS, and those funds are channeled mainly through the rice council, which is a producer-oriented organization, and it's oriented to moving, of course, U.S. rice generically. It's not one product or one brand. There is the fault of that program doing that. We would encourage that to stop. But moving general product for producers, it's worked very well if you have a plan to do it.

Mr. MALLORY. I'd just like to add to that. The U.S. cotton industry has been very pleased with the results of the MPP program, and the logo used by U.S. cotton overseas, while not as recognizable as Cotton, Incorporated, is certainly gaining the recognition and is going to sell a lot of U.S. cotton.

Mr. GLICKMAN. I would just say that I only bring these two examples up to just—we're going to need your help very much in this process. Regardless of whether you like or don't like the specifics of the program, the broader picture is to try to bring interest rates down, which is beginning to happen, to keep the inflation rate low, to expand sales abroad to make our dollars such that we can export products overseas.

I mean, as Mr. Diedrich pointed out, there are a lot of bigger issues here, too, that farmers fit as part of a bigger pattern, but we're going to need your help as we look at these budget choices. So I just appreciate having you here today opening this debate.

Thank you, Mr. Chairman.

Mr. JOHNSON. I want to welcome the gentleman from Missouri, Mr. Emerson, our ranking minority member of the subcommittee, and we're looking forward to having a very close working relationship as we struggle with these challenges in the committee.

Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman. First, I would like to apologize for my tardiness in appearing here today. I think the gentlemen at the table will appreciate the fact that I've been meeting with some of their colleagues representing other commodities. The cattlemen are in town this week also, and the Missouri Farm Bureau is here in great numbers. I'm sorry I was detained, but I

have reviewed the prepared statements and I have several questions.

I would like to say, as did the gentleman from Kansas and, I'm sure, the chairman of the subcommittee, that we really need to work with you as things move forward this year, and I hope that when you're finished testifying today, that won't be the end of your contact with us. We invite you to be in touch with us and share with us your concerns and what you see also as opportunities in the legislative proposals that will be before this subcommittee.

Where I come from and where the gentleman from Kentucky comes from, the riverways are very important to us. I refer specifically in my corner of the country to the Missouri, the Mississippi, and the Ohio. It's a part of our daily lives. Those rivers are a part of our daily lives and our ability to get our commodities to market, get them down to New Orleans and to the world, or up to Minneapolis-St. Paul where they make Corn Flakes or whatever.

But we're really dependent upon the riverways, and one thing that I'm concerned about is this waterway situation as it relates to the barge fuel proposal, and I wonder if any of you would care to comment how these inland waterway fees may impact producers' visits to the local banker or the farm credit office in the communities in which you live. Would any of you care to comment on that?

Mr. MONTNA. Mr. Emerson, I know the parts of the U.S. rice industry that rely on the Mississippi, which are major States—Arkansas, Mississippi, Louisiana, Texas—find the barge tax devastating to their industry, because so much of the product moves on barges, and the tax is overwhelming.

Mr. EMERSON. Well, it's a 500-percent increase, which is a pretty steep hike.

Mr. MONTNA. That's right.

Mr. EMERSON. I hear from my barge people that this might mean as much as $10,000 a day on one tow pushing 12 barges, and my understanding also is that that industry is somewhat fragile at the moment, and it's hard to figure out where this large hike in the barge fuel tax could do anybody much good. All taxpayers. I mean, if we're losing jobs as a result of such a huge tax increase, where's the benefit going to be? Can anybody figure out the positive side of this?

Mr. MONTNA. No. [Laughter.]

Mr. LUNDBERG. Mr. Emerson, it's my understanding, if my numbers are correct, that this barge tax will effectively reduce the price of wheat by a dime. It will be another 10 cents of freight per bushel.

Mr. EMERSON. Ten cents per bushel.

Mr. LUNDBERG. That's my understanding.

Mr. EMERSON. I don't like that impact.

Mr. DIEDRICH. The other thing that's kind of unusual is that we're trying to find ways to better use our energy sources, and I don't think anybody can find any better use of energy to move a crop than down the river in a barge system, and despite the fact of increasing our cost of transportation, we're going to utilize the source of energy that's much more inefficient, and I can't imagine how that fits into our energy program.

Mr. EMERSON. Nor do I. I hope somebody might be available to tell us at some point here as we move forward.

Looking at the overall budget situation and the cuts that are going to come to agriculture, how will this impact your respective commodities' negotiating strength in the GATT talks?

Mr. STATES. I am a smalltown banker, so I get my foot in both camps here. I have to loan money to the farmers, and when their income goes down, I have to figure out how they're going to pay them back. But in the GATT talks, anything we do that makes our products less competitive gives up market share. We have to have an integrated policy that looks at trade, farm policy, transportation, or infrastructure costs, and if we don't do this in a coordinated manner, we're just shooting ourselves in the foot.

You talk about a 10-cent cut on the price of wheat simply because of the increase in barge rates. We operate on very thin margins. If we operate on a 20 percent margin, and a lot of farmers don't, we may only have 30, 40, or 50 cents a bushel gross margin in the wheat. If we take another 10 cents off here, that's the same as a 20 percent cut in our net income, and then another few cents over here for energy tax for the fuel and fertilizer on the farm, and then we take another 12½ percent off because we go from 15 percent normal flex acres to 25 percent, and that 12 percent comes off, and that may translate into another 15 or 18 percent cut.

You know, talk about getting nickled and dimed to death. We've got a policy here that we're just getting ready to set ourselves up to do a serious amount of damage to the rural economy and jobs in the agricultural sector of the United States. I think we have to seriously look at all of these things before we proceed any further.

Mr. MALLORY. Mr. Emerson, I might add, too, that Mr. States said in his prepared remarks, and I did, too, that this unilateral action by the United States is not going to do anything but weaken our position in GATT negotiations, and we're going to give up markets and get nothing in return.

Mr. DIEDRICH. Mr. Emerson, I might make a comment. All you'd have to probably do is look at what's happened in the soybean and oilseeds industry over the past 15 years in Europe when they went from 2 million or 3 million metric tons to 13 million metric tons, largely because we decided in the United States it wasn't a crop worth protecting, and they jumped on that pretty heavily. I'd suggest that that same thing might happen if we decide to do that unilaterally in all the other commodities.

Mr. MONTNA. The same thing has happened to the rice industry, Mr. Emerson, in Europe.

Mr. EMERSON. I think this has just not been thought through what this impact is going to be and what the consequences of this prospective legislation may be. I don't accuse anyone of malice. I just don't think it's been thought through. I think there's a lot about the so-called economic package that sort of looks good on paper and may sound good, but we've got to assess the details of it and figure out what the impact is going to be.

I'm concerned that with the hit agriculture is going to take, it may appear to the people at GATT that we're just surrendering. You know how long and how tedious those negotiations have been over, good heavens now, what period of time? Has it been 6 years

we've been at this? I've felt, "Oh, we're almost on the verge of something here" time and time again, and if we will remain strong, maybe it will work out all right. I'm concerned that right now we're just—I don't think anybody has planned to make us look weak at GATT, but I think that is the unintended effect of the budget proposal as it relates to agriculture.

I have a lot more questions, but I see my time has expired.

Mr. JOHNSON. Thank you.

The gentleman from Texas has provided some badly needed budget knowledgeability and leadership in this committee, and I'd turn to Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. I think I'm getting the credit for all the bad things that have been said about this budget today, and I appreciate you pointing that out.

Mr. JOHNSON. Not at all. [Laughter.]

Mr. STENHOLM. A couple of observations, and then a couple of quick questions. I thank all of you gentlemen for being here and for your testimony. I think each of you recognize that we are kind of between a rock and a hard place when we start looking at what do we do, and there are no simple, easy solutions, it seems, to anything anymore.

Mr. Glickman posed the question, and I don't want you to answer it right now, but I want you and everyone else to be thinking along the lines of, since increasing of the triple base seems to be the preferred medicine if we have to take it again, as it was in previous years, in 1990, what we want to look at is perhaps some combinations of triple base, take a look at perhaps increasing the loan rate on the triple base—the base that we continue to pay on, for example—look at a market loan, look at different combinations that we might apply so that we could maximize the effect of triple base into the marketplace.

For example, I felt in 1990, and feel even stronger now, that on the flex acres, whether it's wildcat acres or whether it's true flex acres, those bushels or pounds should be produced for the world market with no support. If it's going to work, that's the kind of market signal that has to be sent to producers and has to be sent to our foreign competitors. Be thinking about how we might do that, while simultaneously increasing the market price, at least on the domestic side of it, without creating a two-price system that hasn't worked in the past. I don't know if this is possible or not, but this is the kind of thinking I think that we have to be looking at.

Crop insurance, each of you has mentioned it, and most producers recognize the importance of it. What I'm not sure today is that everyone recognizes that we've got to make a choice. The days of insurance and disaster program combinations are gone. We're going to have to make a choice in how we provide disaster relief for our producers, and there are a lot of ideas kicking around there. We've made a proposal, and we appreciate most of you have been trying to help fine tune that to this stage.

My question is around the MPP program. Do each of you in your commodities support brand advertising, or do you believe that it should be strictly generic, whether it's MPP or if you have check-

off funds yourself? Which way do you believe it should be? Generic only or brand has a role to play?

Mr. LUNDBERG. It seems in our discussions with wheat producers that it should be a generic thing exclusively.

Mr. STENHOLM. Generic only and no brand advertising whatsoever.

Mr. LUNDBERG. Yes, sir.

Mr. MONTNA. The rice industry feels the same way, Mr. Stenholm. Generic.

Mr. DIEDRICH. I've had the chance to be overseas with the soybean industry, and we've worked in areas where soybean oil has not been sold in the past as a branded oil, and now they are selling it as a branded oil only because MPP was able to work with them on a branded product, and that's the only reason we have a branded soybean oil in those countries today. It's something we don't have in the United States by fact. So it's been successful as a branded program for us.

Mr. MALLORY. From cotton's point of view, very generic is ideal, but when you're selling consumer products, it's pretty difficult not to get involved with the brand, as he's pointed out with soybean oil.

Mr. BROCKMUELLER. The Oat Association does not have a checkoff, but we do support a generic concept for MPP.

Mr. STENHOLM. Any comments that you might have concerning the proposal that any producer, tenant, or landlord, with $100,000 adjusted gross income should be ineligible for participation in the farm program? What would be the result of that? Is that something that can be made to work?

Mr. STATES. Mr. Stenholm, I addressed it briefly in my other statements, but I'll expound on that a little bit.

Mr. STENHOLM. If you already have done it, don't repeat it for me. I'm sorry if I missed your opening statement.

Mr. STATES. I'll cover some other different points. Anybody that has the ability to earn $100,000 generally has the ability to not get it distributed to him in some manner; therefore, it's going to have a lot of problems on that side. On the other side, it will lead to the breakup of a lot of farms. They'll cash rent. In other words, they're going to dance around it a bit, and all of the statements about how much it's going to save I think are illusionary. I think it's truly smoke and mirrors.

Mr. LUNDBERG. Mr. Stenholm, it was described to me the other day by a friend in Oklahoma. He rents some ground from apparently a wealthy gentleman in Texas. His concern was——

Mr. STENHOLM. I don't think there are any left in Texas. Are you sure it's not Oklahoma? [Laughter.]

Mr. LUNDBERG. Maybe it was a rumor. He said, however, that his concern was, what is the inducement for this gentleman, the landowner, for the renter to participate in farm programs? So all of a sudden, the dynamics of that come into play that I hadn't considered until we discussed this recently.

Mr. BROCKMUELLER. I don't think this provision affects too many oat growers, but personally I think it's an area that needs to be looked at. Any time that subsidies are given to large operators or people of wealth, it reflects on the program, and I think this is true

for all the entitlements. That area has to be looked at. I would encourage you to do that.

Mr. MALLORY. Congressman, I can't resist saying this, that the cotton industry is opposed to it, and I think what you're going to do is make a lot of lawyers rich.

Mr. MONTNA. Mr. Stenholm, the rice industry feels the same way. It's a form of decoupling, and we think we ought to keep the benefits to the land and the things that make up the land, not orient it to people. Once you orient it to people, you're decoupling the people from agriculture, and we just don't think it will work or serve any purpose or save any money.

Mr. STENHOLM. Thank you.

Mr. JOHNSON. Mr. Barlow, I believe, was next.

Mr. BARLOW. Thank you very much. I appreciate being on the subcommittee.

I know you all are very concerned day to day with prices, and there are a number of issues on the table that have a significant potential impact for farming right now. But looking forward to the 1995 farm bill, I'm concerned about building coalitions and reaching out to other blocs in the Congress, urban blocs and so forth, that we're going to need in order to pass a good, strong farm bill with a lot of benefits for the farm economy.

I'm wondering if you all might have a reaction, agreement or disagreement, with the thesis that we could possibly work through public relations media, and with newspaper editors across the country, to show that the price support program is not so much a benefit to farmers as it is to consumers, by keeping prices down and keeping a good supply of commodities in the larder for urban and consumer interests across the country.

To be sure, it does give some underpinning of a steadying, evenhanded nature through time to farmers, but it would be similar to the Government being involved with the automakers and car dealers and requiring that 500 cars be kept on the back lot of every dealership. Wouldn't that have an impact on the price of the car going out the showroom door?

Mr. BROCKMUELLER. I think that's very true. The program does benefit consumers a lot more than most of them realize, and I think that farm groups and consumer groups need not necessarily be at odds one with another, that there are alliances there that can be formed. The same way with some of the environmental groups. We always see our differences, but there are things on which we might join forces.

Mr. BARLOW. Does anybody else care to comment?

Mr. DIEDRICH. The only comment I might make is I think that idea is good, but we're not going far enough. I think what Gordon said about needing to talk to some of the environmental groups, we need to talk about how agriculture is in harmony with the environment, which I think is our first key stumbling block. The 1995 farm bill won't mean a whole lot to us if we don't get through 1993 and the different environmental issues that are coming up.

In our organization, we're promoting the soy diesel concept, vegetable ink concept, also a new stone concept, where you take waste newspaper and soybean meal and put it together and make a wood or a stone. Those are things where it shows agriculture is working

together in harmony with the environment, and that's the story we need to get out. So often we have the story out that says we're antienvironmental, we're ruining the environment. I don't think that's the case. So we need to work on that first, then we need to take that energy and move right into the 1995 farm bill.

Mr. STATES. I think one comment we need to make is that we live on these farms, and if we put some chemicals out on those farms, it affects us, it affects our wives, our children, more immediately and more profoundly than it does anybody else down that food supply. I think we are the environmentalists. We're trying to pass on the land to our children and to our grandchildren. I think there's been a lot of stewardship of the soil that's built into our tradition on the farms. We are, to a large extent, the original environmentalists.

We want a good, clean, safe, sustainable through the next century and 10 centuries—type of agriculture in this country. I don't think we have any fight with the environmentalists whatsoever. We're all after the same thing, it's just a matter of how we get there. Once in a while that we have a bit of a problem with the tactics. But I think we're all in this together. I think we're on their side, and they're on our side.

Mr. BARLOW. Yes, sir?

Mr. MONTNA. Mr. Barlow, you're absolutely right. U.S. agriculture does a terrible job of telling its story and its benefits to the consumer and to the environment. In the U.S. rice industry, almost every State now is adopting a waterfowl management program to use its fields in the winter for migrating waterfowl. They're working with people like the Nature Conservancy, Ducks Unlimited, different waterfowl organizations, Delta Waterfowl people, and putting these wetlands back that have been lost, hundreds of thousands of acres in the winter for habitat, at the producers' expense.

As some said, we are the stewards of the land, and we're developing these programs to benefit the environment and show that we're a responsible commodity. I think everyone at this table is probably working on some type of program like that for some waterfowl or wildlife species that they may benefit. We don't tell the story, and we should be telling the story.

Mr. BARLOW. Thank you.

Mr. JOHNSON. Mr. Barrett.

Mr. BARRETT. Very quickly, Mr. Chairman. Thank you.

Maybe Mr. Lundberg could answer this. It seems to me that the 0/92 program has been a pretty good management tool for a lot of wheat farmers, and I believe that the administration is proposing the elimination, or nearly so, of that program. Is that not correct? What comments would you have at that point? Could you embellish that a bit?

Mr. LUNDBERG. I can from a personal level. As a matter of fact, sir, I have some property in your district, and it was completely held out. It was completely gone. It was early enough in the year that I could still participate in the 0/92 program, and it worked. I guess that's, to me, the best example I can give.

Mr. BARRETT. A good one.

Any other members of the panel? Yes, Mr. States.

Mr. STATES. Yes, sir. As a wheat farmer in Kansas, we've had some serious problems with drought. There was one year when we couldn't plant the sorghum crop, so we went 0/92, and that gave us some extra summer fallow, along with the flex acres. We then tried to catch up the next fall with the wheat crop. Basically, it saved our farm income that year.

Also, it was a year that there was a disaster program in effect, and because we had the flexibility of the 0/92 and the flex acres, we managed to salvage ourselves and didn't cost the Government a penny as far as any disaster assistance. So I think it was a very positive program for us.

Mr. BARRETT. I appreciate both of those comments. I believe you come from Phillips County, don't you?

Mr. STATES. Yes, I do.

Mr. BARRETT. Mr. Roberts' district?

Mr. STATES. Yes, I do.

Mr. BARRETT. You abut my district in Nebraska. Welcome.

Mr. STATES. Thank you.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. JOHNSON. Bill, everybody abuts your district. [Laughter.]

We have 5 minutes remaining until the 10- minute bell on a quorum call, and we're going to have to leave, so I think if we would take Mr. Sarpalius, and then we will very quickly recess and come back for the next panel.

Mr. SARPALIUS. Thank you, Mr. Chairman.

I know that each of you have talked a little bit about the Btu tax, but I'd like to get your comments about those areas of the country that have to depend on irrigation wells to produce their crops, particularly areas that are located over the Ogalala aquifer. For many parts of the country or some parts of the country, the water is subsidized, but in those cases where the farmers have to pay to irrigate their crops, you're talking about a substantial additional burden that is placed on those producers. I'd like to hear your comments on that.

Also, this morning Leon Panetta, Director of OMB, mentioned the possibility of some type of exemptions for ethanol, and I would like to hear your input on that as well.

Mr. STATES. As a banker, we do provide loans to some farmers that irrigate out of the Ogalala aquifer. We also are right near the Harlan County Reservoir there in Nebraska, so we're familiar with those problems. Basically, anything that adds to those lifting costs are going to be very serious. That's why this committee exhibited a lot of forethought when they made that corn-sorghum feed grain compromise in the technical corrections portion of their bill several years ago, because that allows farmers to move between corn and sorghum, dryland and irrigated, without chasing a deficiency payment. That gives them the ability to respond to some of those problems, and if those taxes go into place, it will create a need for them to respond.

Mr. SARPALIUS. Have you put a pencil to figuring out how much additional cost would be imposed on an irrigation farmer?

Mr. STATES. That one I haven't worked out, but we've looked at some figures for my farm. I use about 8,000 to 10,000 dollars' worth of diesel fuel a year, not for irrigation, but for other pur-

poses. It's a dryland farm. Add an energy tax to that, add the tax to the cost of producing fertilizer, add the tax to the cost of transporting the grain in, plus add the tax to the cost of transporting the grain out, and then if you're in an irrigated area, add that lifting cost in there. It's a very heavy burden.

Mr. BROCKMUELLER. I won't speak directly to the irrigation matter, but the whole Btu tax, I think, will be real tough on agriculture, on farming, because it's just another cost that you add onto the cost of production, not only the fuel that you use, but many of the products that we buy.

I just want to relate a personal incident here. I have a son farming with me, and he's raising hogs, and he told me the other day, "Dad, I think I want to rent out my cropland"—he has some cropland—"and just raise the hogs." I said, "Well, why would you ever want to do that?" He said, "Well, I can buy the grain cheaper than I can grow it." I looked at him, and I didn't say a whole lot. Well, a few days later I picked up a farm magazine, and I read an article interviewing Bill Haw, who is an executive with National Farms Inc. He made the comment that National Farms went out of grain production and went into cattle feeding because they could buy the grain cheaper than they could raise it. Now, when that happens to a family farm, where do you go?

Mr. MALLORY. I'd just add, too, that I think all the commodities represented here, their prices are world prices, and if we add an artificial cost to the price of production, that just puts us at a great disadvantage in competing for world market.

Mr. SARPALIUS. The one thing that really concerns me on the Btu tax is that farmers who irrigate are getting hit extremely hard, because not only are they getting hit with the cost of energy on running tractors and equipment, but also on the cost of running an irrigation well; it drives the dollars up. I'm told about 28 percent of the cost of producing a crop is for energy, so you can see what kind of an impact that would have.

Mr. JOHNSON. The time has expired, and we're down to past the last warning on a quorum call vote, so I'm going to recess the committee at this point, and we'll come back as quickly as we can. I thank this panel for a very valuable contribution, and we'll go on to panel two in just a few minutes.

[Recess taken.]

Mr. JOHNSON. The hearing will come to order. There's nothing quite like a vote to disrupt the proceedings of a committee, but we have concluded the quorum call vote. It escapes me why anybody would call for a quorum call vote when there are no additional votes expected in the remainder of the day, but nonetheless that's the process around here.

I'm hopeful that Mr. Emerson will be able to make it back. They tell me to go ahead and proceed, and hopefully he will be able to join us as the ranking minority member. I think in order to expedite things, we'd be better off to get started with the second panel and proceed from there, and those members who can come back will do that.

I know for some people who are not familiar with congressional hearings, it's sometimes disconcerting to see members of the committee drift away, but everyone has a lot of conflicting responsibil-

ities here, and the testimony nonetheless is in the record and is shared by staff with all the members and will be read and reviewed carefully.

I'm pleased with the participation we have on the second panel. We have with us Mr. Gary Bright, who's president of the National Grain Sorghum Producers Association of Melrose, New Mexico; Mr. Rod Gangwish, who's chairman of the government relations committee, National Corn Growers Association, of Shelton, Nebraska; Mr. Gerald Lacey, vice president of the National Barley Growers Association of Campbell, Minnesota; Mr. J. Stephen Lucas, chairman of the waterborne commerce committee, National Grain and Feed Association, of Wilton, Connecticut; and Mr. David Senter of the American Corn Growers in Washington, DC. I just met with a group of my South Dakota corn growers out in the hallway, so we've got a lot of corn growers in town.

I think that the best proceeding would be the same as with the first panel, that we will take the members and then at the conclusion of everyone's testimony, we will go on to questions from the committee.

Also, we want to try to follow the 5-minute rule as much as possible. Obviously, I'm not overly rigid of it, but we want to be thinking in terms of following the green light/red light rule, and when you see the red light come on, be thinking of wrapping things up. You may want to summarize your statement, or you may want to read it, whatever you're most comfortable doing, but all your full statements are accepted in the full record of this committee, and we have them for that purpose.

Why don't we begin, then, with Mr. Gary Bright, and you may proceed, and then we'll go on through the rest of the panel.

STATEMENT OF GARY BRIGHT, PRESIDENT, NATIONAL GRAIN SORGHUM PRODUCERS

Mr. BRIGHT. Good afternoon, Mr. Chairman and members of the subcommittee. My name is Gary Bright, president of the National Grain Sorghum Producers. On behalf of the National Grain Sorghum Producers, I would like to thank this subcommittee for the opportunity to express our views on President Clinton's economic stimulus package and the way it affects our industry. The President has some tough choices ahead of him.

We feel that everyone will have to share the burden of reducing the deficit, and that includes agriculture. However, subsidies provided to agriculture are minimal in terms of the overall national budget, making up one-sixth of 1 percent. Since 1985, agriculture has shouldered an exorbitantly large percentage of reductions.

There are several aspects of the administration's proposal which will have an adverse impact on agriculture. First, we would like to address the elimination of the deficiency payments to producers who have off-farm income greater than $100,000. This will affect many landlord/tenant relationships. Farmers may be forced to cash rent instead of crop sharing, therefore assuming all risk.

Expanding the nonpayment acres from 15 to 25 percent on the triple base plan would reduce farm income $1 billion in 1996 through 1998.

This proposal would also eliminate the 0/50 and 0/92 programs for feed grains after 1995. This would reduce farm income $937 million in 1996–1997. These programs are important to farmers since the current farm program lacks flexibility. Adverse weather many times leaves no alternative but to choose one of these programs.

The Federal crop insurance program has not been adequate. In assessing the President's reductions in mandatory/entitlement programs, it appears that Federal crop insurance will be eliminated. The total budget is not much more than the proposed reduction of $739 million and reforms in operations of $551 million in 1995 through 1997.

Another area of concern of grain sorghum producers is the proposed energy tax. Agriculture uses more than 1.5 trillion Btu's of energy each year. A Btu tax of 40 cents per million Btu's is equivalent to a 5-cent per gallon tax increase. It is estimated that each 5-cent increase in Federal gas tax costs farmers $600 million. Inland waterway tax on barges carrying grain is another expense that will be passed on to farmers.

Ethanol is very important to the sorghum industry, and we encourage President Clinton to continue his support of it. We also support the continuation of ethanol research programs to lower ethanol costs through improved production technology and thereby reducing our dependency on foreign oil.

In looking at reductions in nondefense discretionary programs, we would support close scrutiny of CSRS earmarked research grants and CSRS earmarked facilities construction. In addition, a close look should be given to earmarked special extension grants and ARS earmarked facilities construction. It is important that these programs address the priorities of agriculture that will enable farmers to compete effectively on a global market while producing food and fiber.

We question the proposal to reduce development-oriented foreign food aid, title 3 of Public Law 480. It is our opinion that this would simply be a shifting of dollars from agriculture to the military. This program not only supplies countries in need of food, but assists them in learning to become self-sufficient. There would be little need for the United States to have troops in Somalia if this country were being taught how to produce grain sorghum, which is efficient in water usage and drought tolerant. Sorghum starch serves as an excellent food staple for breads and cereals.

It is no secret that rural America is shrinking in population. Rural economic development has received much lip service over the years. Unfortunately, we have seen little in results. If the President is truly serious about rural economic development, we hope that he will continue to study his history and recognize that it is time for various industries to expand into the Midwest. Here are two examples.

At one time the primary source of raw materials for paper and corrugate was wheat straw. When we began to settle this country, manufacturing of paper began on the east coast. As production agriculture moved West, so did the supply of wheat straw; therefore, manufacturers became dependent on the timber to supply their raw materials. Research shows that wheat straw and grain sorghum

stubble will work as an excellent source for paper and corrugate production. This provides an excellent opportunity to use a residual byproduct.

There are brochures that we have, and you might like to look at them in a minute.

Mr. JOHNSON. We'll receive those items into the record as an attachment to your prepared statement.

Mr. BRIGHT. We would like to encourage President Clinton's economic recovery plan to include the restoration of investment tax credit. This would provide an incentive for farmers to increase equipment expenditures, and this, in turn, would stimulate the economy.

We applaud Secretary of Agriculture Espy's pledge to streamline the USDA bureaucracy in Washington. We believe that this is a step in the right direction. We want him to find the employee in the basement who gets paid for measuring the flow rate of ketchup.

Again, thank you, Mr. Chairman, for the opportunity to express National Grain Sorghum Producers' views on these important issues.

[The prepared statement of Mr. Bright appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Bright.

We'll proceed directly on, then, to Mr. Gangwish.

STATEMENT OF ROD GANGWISH, CHAIRMAN, GOVERNMENT RELATIONS COMMITTEE, NATIONAL CORN GROWERS ASSOCIATION

Mr. GANGWISH. Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the views of the National Corn Growers Association. I'm Rod Gangwish, chairman of the government relations committee for the NCGA. We raise corn, soybeans, and alfalfa and operate a feed lot on our farm near Shelton, Nebraska.

I want to commend you for holding this timely hearing. Our organization is concerned that the opportunities in agriculture, particularly profitable corn production, are becoming increasingly limited. Current price and production cost estimates for the rest of this century show relatively flat returns per acre for corn farmers. The economic package proposed by President Clinton would further narrow the margins for U.S. corn farmers. Energy taxes will increase the cost of production, while cuts in farm programs will reduce income. I estimate that the energy taxes, as proposed, will increase the cost of production on my 1,400-acre irrigated farm and feedlot by 7 percent. Unless prices improve dramatically and the weather cooperates, there will be no economic recovery in the corn sector.

Unfortunately, Congress cannot legislate ideal weather, but Congress can act to improve farm prices. The national average price of corn for the first 5 months of the 1992 crop year was $2.02 per bushel. USDA has projected an average price of $2.03 for the 1993 crop. These prices are too low to keep many farmers in business.

Deficiency payments offer an important level of income protection, but as a national average, one-fourth of participants' corn production is not eligible for deficiency payments. This limited defi-

ciency coverage is the result of program payment yields that are well below the actual yields and triple base or normal flex acres that are not eligible for deficiency payments. The decisions made back in 1990 to limit program benefits were intended primarily to meet Federal budget targets, but the implicit promise made to agriculture was that aggressive U.S. trade efforts would assure reasonable market returns. Subsequent policy has not provided producers with a realistic price for corn.

The Federal Government has an important role to play in supporting agricultural markets, and we ask for this subcommittee's support to address those market concerns.

First, the loan rate for corn must be raised to the basic loan level. Reductions from the minimum loan level for competitive purposes have eliminated the price support function and replaced it with an inadequate financing tool. Consequently, too much corn is moving into the market at harvest and is further depressing already low grain prices.

The basic loan level is only 85 percent of the simple average market price during the preceding 5 years, excluding the high and low years. Thus, the basic loan rate is necessarily 15 percent lower than the average price received by farmers. When adjusted for inflation, the rate is even lower. Every year since 1985 the minimum loan and purchase level has been cut further by reductions intended to assure export market share and maintain a competitive market position. The GATT triggers contained in the Omnibus Budget Reconciliation Act of 1990 require a marketing loan for 1993 through 1995 crop years of wheat and feed grains. Competitive adjustments should not be necessary with a marketing loan.

A carefully implemented marketing loan will achieve the competitive market prices that adjusted loan rates are intended to achieve. Producers will benefit from a higher level of support at the time the crop is placed under loan, and if prices fall under the basic loan rate, the marketing loan will provide income support for all program production placed under loan.

The obvious disadvantage is the potential budget exposure with marketing loans at the basic loan rate. We want to work with you to minimize the budget exposure by implementing policies to keep corn prices above the basic loan rate.

We need farm policies that expand domestic and export demand at prices that offer a realistic level of return for U.S. producers. Domestically, this means maintaining and expanding livestock markets, assuring a role for ethanol in the oxygenated fuels programs included in the Clean Air Act Amendments of 1990, and developing new industrial and food uses for corn.

To expand exports, corn farmers need a fair trade agreement via the GATT that will end the dumping of excess European Community grain into the world market.

We need to recognize and develop the potential feed grain and meat markets in Mexico through the North American Free-Trade Agreement. We have tremendous opportunities in South America and in the Pacific Rim where meat consumption and industrial products from corn can expand dramatically.

Congress must reconsider the current impediments to operation of the credit guarantee programs to address the special credit

needs of Russia, Ukraine, and other Republics of the former Soviet Union.

President Clinton's economic package includes user fees on inland waterways and on Federal grain inspection services, both of which will add to the cost of our exports, which will affect our competitiveness. NCGA urges you to carefully consider the total impact of such fees and the tremendous importance of grain exports to the Nation's economy.

In addition to strong markets, farmers need the tools to manage the weather risk inherent to agriculture. For the producer with 10 years of records, the Federal crop insurance program offers an effective risk management tool. NCGA supports efforts to enable producers to establish their actual production history with 4 years of records. Crop insurance based on the producer's individual experience provides much greater assurance for purposes of loan collateral and marketing strategies than would be available with a group risk approach.

President Clinton has called for user fees on commodity exchanges. Again, this is another example of increased costs to producers that may have the unintended effect of discouraging producers from using an important marketing tool.

We recognize and applaud the efforts to reduce the Federal budget deficit. We realize that agriculture will have to contribute to the national belt tightening, but agriculture took more than our share of cuts in 1990 and should not be expected to contribute more than our fair share of cuts in this round of budget reconciliation.

Profitability in agriculture is essential to economic recovery in this country. Profitability for farmers will enable us to support our families, help our communities prosper, and contribute to the deficit reduction through the payment of income taxes.

Thank you for considering our input. All of us at NCGA look forward to working with you in the coming years to develop policies that will ensure the long-term success of our Nation's great corn industry.

Thank you.

[The prepared statement of Mr. Gangwish appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Gangwish.

We'll move, then, directly to Mr. Lacey.

STATEMENT OF GERALD LACEY, VICE PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION

Mr. LACEY. Mr. Chairman and Congressman Peterson—I appreciate my Congressman being here to hear my testimony— I'm Gerald Lacey, a barley grower in the Red River Valley near Campbell, Minnesota. I'm currently president of the Minnesota Barley Growers Association and vice president of the National Barley Growers Association. NBGA is a grower membership organization including barley producers from Minnesota, North Dakota, Montana, Oregon, Washington, and Idaho. This block of 6 States annually produces from 80 to 85 percent of the total U.S. barley crop.

We agree with the fact that we need to get rid of this immense national debt, but that's the easy part to agree with. The problem comes in being fair with everybody, and at this point, barley grow-

ers become as focused on our survival as all other categories of taxpayers. Naturally, we believe that barley can make a convincing argument that our producers may be unduly vulnerable to the array of proposals which is emerging as the various budget committees and administrative planners work at their difficult assignments. Actually, many of the points that we emphasize are appropriate to other commodities as well.

Barley's problem is that it is starting at such a low station on the net returns per acre chart that even a small cut in income will put the commercial barley producer in the same category as the carrier pigeon—extinct.

One of the most disturbing proposals for grain producers is the combination of energy taxes and user fees which would severely impact grain marketing costs. Btu taxes are not fair in that they just do not hit us all equally. Farmers, with our high energy input, get hit just too hard to survive. The proposed user fees or barge fuel taxes are going to add 15 to 20 cents a bushel to our grain that is already having trouble competing with the world market grains that have lesser or no fees. Many farmers consider this ever-increasing regulatory cost a greater threat to their success than the weather.

A decrease in payment acres would seem to be an untimely strategy which could further complicate the already discouraging GATT negotiations. The United States has had the past experience of unilaterally making production adjustments which have cost export market share and have disadvantaged us in our long competition with the European Community.

There have been suggestions to reduce or even eliminate the export enhancement program. That would seem to be the ultimate folly if we are to have any hope of maintaining our competitive stance in the world market. We would be rapidly shouldered aside by the predatory pricing practices of the EC's restitution program and the single-desk marketing arms of our other grain exporting competitors. The same is true of proposed cuts in the important GSM credit programs, which have been equally vital to the U.S. commodity exports.

Given this opportunity to appear before this committee, the NBGA also wishes to raise an issue which, while not in the strict context of this hearing, is becoming quite serious and has the potential to have a significant impact on the cost of our commodity programs. We would like to call your attention to the influx of Canadian grain which is flowing unencumbered into the United States market. The volume of Canadian barley that was exported into the United States in 1990–1991 was 230,000 tons. During the 1991–1992 marketing year, that amount rose to approximately 527,000 tons. That trend line is a cause for apprehension, especially when we have quotes from the Canadian officials which target the United States market for 1½ million tons in the near future.

Considering that around 10 million tons is an average production year for barley in the United States, an influx of 1½ million tons would be a 15-percent increase in the U.S. barley supply. This last year, every upward movement in the cash price in key feed markets has been met by a surge of Canadian grain. As a result, the

market has been very flat, and the inevitable effect will be higher deficiency payments.

Complicating the competitive price situation which draws barley south is the troublesome U.S. malting barley assessment. Because of the assessment, a significant amount of barley which is actually of malting quality is being sold as feed, especially in my area in the Midwest. This is due to the fact that the spread between the prices of malting barley and feed barley is often less than the projected assessment. Thus, a farmer often opts for the somewhat lower feed price, because he hesitates to cope with the uncertainty of the assessment level, which may or may not exceed the spread.

This obviously tends to skew the normal market for both malting and feed barley. One of the most serious consequences of this unusual pattern is the competitive advantage that it offers the Canadian barley producers who sell into the domestic United States market. With the assessment discouraging United States farmers from selling their grain for malting purposes, the United States malt houses are increasingly finding it cheaper and easier to seek their barley supplies from Canadian sources.

As a means of determining what specific use is being made of the imported barley and what markets it is impacting, we are asking Congress to pass an end-use certificate, which would help to trace the shipments to their ultimate destination. If, by correlating these grain movements to price trends, we are able to confirm our contention that the practice disrupts the intent of our domestic and export programs, we may be justified in seeking remedial action.

Members of the committee, I live close enough to the border elevator, so I see this Canadian grain being delivered. We need to do something to mark or identify this grain as it crosses the border.

The NBGA thanks the committee for the opportunity to air our views on the economic situation in our industry and the budget proposals being suggested. We reiterate our willingness to undertake our fair share of the fiscal burdens facing our country today, but let us not lay it on the cost of production. Let me, as an older farmer with my land and my machinery paid for, pick up this debt with my income tax, rather than prohibit the next generation from getting started.

Thank you.

[The prepared statement of Mr. Lacey appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lacey.

Mr. Lucas.

STATEMENT OF J. STEPHEN LUCAS, CHAIRMAN, WATERBORNE COMMERCE COMMITTEE, NATIONAL GRAIN AND FEED ASSOCIATION

Mr. LUCAS. Thank you, Mr. Chairman. I want to express my thanks for inviting me to testify here today on a particular issue of importance to the agricultural sector. The subject review here of this committee meeting talks about how the President's economic proposal would affect the outlook of agriculture, and I want to speak specifically about one particular portion of that economic program, and that's the waterway fuel tax.

By way of introduction, I'm Steve Lucas. I'm director of logistics and operations for Louis Dreyfus Corporation in Wilton, Connecticut. I'm a member of the Inland Waterway User Board, which is a Federal advisory committee which is charged with recommending priorities of inland navigation projects to both the Congress and the President. I also serve as the chairman of the National Grain and Feed Association Waterborne Commerce Committee.

The National Grain and Feed Association is composed of 1,200 processing grain and feed firms, 5,000 facilities, and more than 40 other regional and State affiliated associations.

In my prepared testimony, Mr. Chairman, we've given several reasons to oppose this $1-per-gallon fuel tax, and I want to cover just a couple of those in the short time here today.

First, we believe that this $1-per-gallon increase would significantly decrease farm income all across the United States. Looking at the system of grain movement and marketing in this country, you only have three possible sources for that tax to be paid from. One is to raise prices to the foreign buyer, and we've heard testimony here today about how difficult it is to compete even without additional costs. We believe that the cost of that fuel tax cannot be passed on to that foreign buyer in any significant measure.

Second, the merchandising firms and the barge companies of the United States could absorb that cost, in theory. However, the cost of that program, $430 million a year, is probably more than the gross operating margins of all of the barge towing companies and the grain exporting firms in this country. That only leaves us with one person in the chain, and that's the producer, where that $1-per-gallon tax is going to get passed back by means of lower prices at the farmgate, lower bids to the farmer.

We've heard some numbers bandied about. It appears that in the States just adjacent to the rivers—Minnesota, Iowa, Illinois, Indiana, Ohio, Missouri, Arkansas—that this $1-per-gallon tax—I'm sorry, Congressman, I did not mean to leave out the Commonwealth of Kentucky on the other side of the Ohio River—but in just those States, this alone would take $430 million out of the farm economy, out of farm income.

Third, we believe that this proposal is based on faulty economic theory. This proposal assumes that at today's level of spending by the Corps of Engineers for operation and maintenance of some $430 million, that if you would tax the users of the waterways $1 per gallon to bring in that much money, that the level of commerce would remain the same on those rivers, that you wouldn't drive commerce off of the river to rail, to truck, to other modes of transportation. Now, unfortunately, I don't believe that fits with the basic, simple economic theory that as the price of goods go up, demand for those same goods should slack off.

In addition to that, there is evidence from the USDA itself that this tax would actually net cost the Government more than it brought in, because the USDA, in their final regulatory impact analysis of November 1992, estimates that a 5-cent bushel decline in the corn price—just in corn, not soybeans, not other commodities—would cause additional Government costs in the range of $300 to $500 million. If you put soybeans, wheat, barley, oats, as

we've heard here this afternoon, on top of that, the numbers get much higher.

The tax itself is only designed to bring in in year 4 $460 million, or some $800 million over the 4-year period. Even using very conservative assumptions, this tax will net cost the Government, through higher deficiency payments, loan payments, whatever, more than the tax actually is going to bring in, and I believe that's counterproductive to the strategies that we're all trying to work for in this country.

Mr. Chairman, in my prepared remarks, we have included some suggestions of alternative means of raising that same amount of revenue, which we'd be happy to discuss at a later time, and at this point I'd like to conclude my remarks.

Thank you.

[The prepared statement of Mr. Lucas appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Lucas.

Mr. Senter.

STATEMENT OF DAVID SENTER ON BEHALF OF THE AMERICAN CORN GROWERS ASSOCIATION

Mr. SENTER. Thank you, Mr. Chairman. I'm David Senter, and I'm here today on behalf of the American Corn Growers Association. We appreciate very much the opportunity to appear before this subcommittee.

As we view the main problem that we have currently and have had for a number of years, it has been low commodity prices. If farmers were receiving their cost of production when they sell a bushel of corn or a bushel of wheat or other products, it would be a lot easier to take an objective look at all that is contained in the President's proposed package.

The problems in agriculture did not end with the 1980's, they have continued. We continue to see our small towns lose jobs and businesses close, but it all comes back to the bottom line of the purchasing power of the farmers and whether or not they can cover their cost of production and make capital investment into their business.

Agriculture is the foundation of the economy, and as agriculture suffers, it feeds into our everyday life all the way from our towns and cities to States and all the way here to Washington.

I agree with the statement made earlier that changes in the income tax would hurt agriculture a lot less than some of the proposed changes in the President's package. The American Corn Growers supports the objective set forth by the President to reduce spending, reduce the deficit. We do have concerns about certain parts of that package, and we hope that we can make adjustments as the package moves through Congress and, ultimately, to reality.

We're concerned about the Btu tax being applied to ethanol. This particular committee has spent years—a lot of work and a lot of money has been invested setting aside ethanol as a renewable fuel so that we can create jobs and new markets, and we need to take steps to make sure that ethanol is not taxed in this proposal.

Also, we believe that if the loan rates were raised and supply management features tightened up in farm programs, we could

achieve the savings necessary to avoid additional triple base and other measures that come directly out of farm income. If loan rates are raised and farm income is protected, then farmers can be able to pay some of these taxes that are being talked about in order to make the package complete. If farm income was up, they could pay this Btu tax and still stay on the farm. We cannot leave farm income where it is or reduce it and then put taxes on top of it and make it work.

We also want to state our support for continuing the $600,000 estate tax exemption that's in current law to make sure that we do have an opportunity to pass our farms on to our children and our families so that they can continue in operation.

We believe that by raising the loan rate to the cost of production and by tightening up the supply management, we can achieve the savings, and as an option, we might just set forth the TOP program that has not been used that was contained in the 1990 farm bill where, let's say, a farmer chooses a zero set-aside, then let's provide them with a $2 target price and a $1.50 recourse loan. If they choose a 10 percent set-aside, let's have a $2.75 target price and a $2.25 nonrecourse loan. If they set aside 20 percent, let's have a $3.25 target price and a $2.75 nonrecourse loan.

Let's give the farmers a real option out there in how they manage their farms, what kind of rotation they go into, and the more land they idle, let's make it worth their while on the supply management. This would allow them to practice better soil and water conservation practices, and it would also allow them to respond to market signals. If we have high prices and we have a demand, they could go plant it all under the program if the market was there, and if we have a 9 billion bushel crop, huge carryovers, and low prices, they might want to summer fallow more acres and choose the other option.

We would also urge the Secretary to increase the reserve to the maximum level and adjust the loan rate up to pull some corn into that reserve, get it out of the marketplace, to shore up prices.

The bottom line is American corn growers do not support increased production just for the sake of moving more into the market. We believe that farmers should be able to get their cost of production out of what they produce.

Also, there are statistics available that will show that the lower prices have not increased our exports. We have spent billions of dollars since 1985 lowering loan rates, increasing costs to taxpayers, and our exports have barely gotten back to where they were in the early 1980's. We have to understand that the money has been spent artificially lowering market prices instead of providing an adequate floor and getting in the business of selling what we produce. So we have to change our philosophy and get in the business of selling instead of in the business of spending taxpayer dollars to artificially lower market prices.

With that, Mr. Chairman, I would just say that we look forward to working with this committee, with Secretary Espy, who has asked our input, and also the White House so that together we can come up with positions and a program that will protect farmers so that we can in fact do our part in this package and start solving the economic problems that we have.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Senter. I understand that Mr. Espy is in fact increasing the reserve level, which is encouraging.

Let me ask Mr. Gangwish, how high can you dare raise the loan rate before you run into problems where it has a detrimental effect on overall export trade? You can do production management on our side, but obviously we can't do multinational production management or acreage set-aside. If it were up to you, how high would you raise the loan rate? Any notion?

Mr. GANGWISH. I would hesitate to give you a figure. I do understand that as you raise the loan rate, then you do run into that problem. It's one of the things that we're looking at right now, and hopefully we could come up with a figure that we could provide to you.

Mr. JOHNSON. I know Mr. Senter was kind of focusing on that a bit, too, in terms of how much acreage set-aside you have to do if you go with a higher loan rate, but it is a complicated matter, particularly in a global grain trade.

Mr. SENTER. Mr. Chairman, I might just say we're going to have a marketing loan. It's mandatory under current law. It makes no difference where the loan rate is established as far as our export price on commodities at this point in time. So actually that argument is not a point under our current legislation. We have had concerns over the cost of marketing loans over the years and not providing that floor to programs, but the fact of the matter is a farmer can go to the bank and borrow money on the loan rate, and he gets that on his crop. Deficiency payments, on the other hand, you can't borrow money on them, because until the banker sees the deposit slip, they figure you're not going to get them.

Mr. JOHNSON. Mr. Lucas, would you compare the impact of the waterway fuel tax with the Btu tax impact on other methods of transportation? Is there any comparative work here that would give me a little better notion of how you come out on this proposal?

Mr. LUCAS. Mr. Chairman, I have not seen any hard statistics on that. What I can tell is the Btu tax for diesel fuel used on the inland waterways adds about 8 or 9 cents a gallon to the cost of diesel fuel, which today is somewhere in the range of 60 to 70 cents, plus an additional 17 cents in waterway fuel tax that we're already paying today for long-range rehabilitation and new construction through the Inland Waterway Trust Fund. That's a rather insignificant amount, 8 or 9 cents a gallon, when you start to look around the corner and see $1 a gallon staring you in the face. So, frankly, we have not focused too much on that.

However, I would say in comparison to the other modes of transportation, the Btu tax is probably the least onerous on the barge industry, because the barge industry is the most energy-efficient. That's one of the things that has mystified us about this administration's proposal to do something that would drive commerce from the most environmentally friendly, energy-efficient mode of transportation to other less-efficient and certainly more environmentally maybe not unfriendly, but certainly cool, modes of transportation. That seems to be incongruous to us.

Mr. JOHNSON. Very good.

Mr. Lacey, how do your people feel in the disaster assistance versus crop insurance argument? If you had to pick one or the other and that's all you're going to do from now on, any insights that you'd care to share with us from your producers?

Mr. LACEY. I don't think there's any doubt that the crop insurance would be the choice, because the politics of disaster is not a very sure thing. I think we need to improve a lot. I think we can improve the crop insurance thing a whole lot, and in working with the system, I'm sure we can make it so that it will function a whole lot better. But I don't think we need both. I'm afraid that we have people that have counted on both and, therefore, made the Crop Insurance System not a very workable system, either, because there's always been the thought in the back of everyone's mind, "Why should I carry crop insurance? I can pretty well count that somebody will come to my rescue with disaster relief."

Mr. JOHNSON. I think you're right that disaster payments undercut the inclination to sign up for crop insurance. There's no doubt about that. The trick is going to be to try to figure out a way to keep the White House and Congress from wanting to do a disaster program when things get tough and there's a Presidential primary in Iowa. [Laughter.]

That's always going to be a challenge. But in the mean time, we do them both, and we do them both badly, and we're going to have to find a mechanism and stick to it, in my view.

Now, Mr. Bright, would your sentiment be roughly the same, from your perspective, that your people would prefer the management options of a crop insurance approach?

Mr. BRIGHT. Yes, I think that's a correct assessment. It needs to be reworked and make it a workable program. Right now, as a sorghum producer or a wheat producer, it just won't work for me. I can't take Federal crop insurance if I have to rely on the disaster programs, which may or may not come. Maybe something can be done. I wish we had the answers.

Mr. JOHNSON. Well, in the mean time, every time there's a problem in three or four townships, we all get plenty of mail saying, "Where's my disaster check? By the way, I don't have any crop insurance or hail insurance." So this is something that should have been resolved in the 1990 farm bill but, frankly, was not. Now the financial end of things are going to force us to make some judgments.

There are a number of other questions that I would like to ask relative to the budget cuts. I think we need to be thinking in terms of, again, plan B. All of us would like the cuts and the taxes to go away, but not only the Clinton plan, but every alternative plan I've seen in fact hit agriculture pretty tough, and there's a growing sentiment, I think, out there that any sector of the American economy that relies on taxpayer subsidies is going to be increasingly vulnerable. So we're going to have to continue to find ways to get our living out of the market, with fewer and fewer subsidies, and I think that's simply a reality that we may not like to deal with, but it's one we're going to be compelled to deal with.

I'm looking forward to your input and the input of your organizations as we struggle with ways to reduce the Federal budget deficit,

to reduce our reliance on Government subsidies, but at the same time not cut the legs off of our competitive situation with our grain trading allies.

The red light is on, and I'm trying to be rigorous about this with the rest of my colleagues, so I will terminate my questions there and turn to Mr. Barlow for any questions that he might have.

Mr. BARLOW. Thank you, Mr. Chairman.

Let me just ask you all quickly, for the sake of time, about your association's position on the North American Free-Trade Agreement, if you have one or if you're still developing it, and second, would your markets improve if there were labor agreements in the North American Free-Trade Agreement which would, with time, bring those wage levels up so that buying power in Mexico increased markedly? Two questions.

Mr. Bright.

Mr. BRIGHT. The National Grain Sorghum Producers does support the NAFTA agreement. It's in our policy statement, and I think it would be a big increase for our shipments to Mexico, particularly of grain sorghum. I think a lot of that cropland in that country is going to go away from corn and sorghum production and go to more food production, and, therefore, there probably will be a need to export grain sorghum to Mexico, and I think it will be good for our industry.

Mr. BARLOW. Mr. Lacey.

Mr. LACEY. NBGA supports NAFTA, but all along during the NAFTA negotiations was concerned that the Canadian Free-Trade Agreement be addressed at the same time and was under the impression that it was all on the table at the same time. That wasn't a fact. We got clobbered with the Canadian Free-Trade Agreement. If what we're hearing about NAFTA is in fact the truth and we can believe what we're hearing, then we do favor the negotiations with Mexico. But it certainly left us awfully gun-shy after the Canadian Free-Trade Agreement and everything we've got coming in our back door right now.

Mr. BARLOW. Mr. Senter.

Mr. SENTER. The American Corn Growers has serious concerns about NAFTA. Our opinion is we'll have both the north and south door open instead of just the north door that we have currently with the Canadian agreement. The past has shown that we have had some pretty substantial increases in our ability to export into Mexico, and we believe that we should negotiate commodity by commodity access to those markets so that we do get additional sales and have protections in agriculture instead of having a political agreement negotiated that we believe is going to leave agriculture as one of the tradeoffs for certain other sectors of our economy.

Mr. BARLOW. Mr. Lucas.

Mr. LUCAS. Unfortunately, the National Grain and Feed Association believes that the NAFTA agreement is an unqualified yes in support of it. This opens up tremendous opportunities for the agricultural exports from this country to Mexico and possibly to Canada also. Not to say that it is not fraught with some problems. Obviously, there are some deep concerns, especially with Canada. But perhaps we could resolve those in a bilateral fashion on each side

there, but keep the agreement in its broadest form intact, because that's a tremendous opportunity for this country to move ahead in its thinking of how we operate.

Mr. BARLOW. Mr. Gangwish.

Mr. GANGWISH. I stated earlier the National Corn Growers position. We do support NAFTA. It will guarantee exports of corn into Mexico and into that area. If we don't get NAFTA, we have zilch as far as a trade agreement, and we have some other countries that will move right in and pick up some of those markets that we now have, and that concerns us a great deal.

With regard to your question concerning wages, anything that we can do to increase the standard of living, particularly in Mexico, is something that's going to improve our ability to move into that market, and we think that's of the utmost importance.

Mr. BARLOW. Does anybody disagree with Mr. Gangwish's last statement that as we increase the standard of living and wages, consumption increases, and anything in the agreement that would lead to that would help exports?

[No response.]

Mr. BARLOW. Thank you.

Mr. JOHNSON. Thank you, Mr. Barlow.

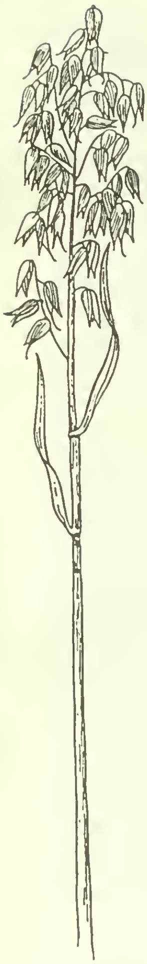
I want to thank the members of this panel. I think your insights, your contributions are very constructive and very helpful to the deliberations of this committee. We have some very difficult choices to make. It isn't between good and bad. Very often it's going to be between bad and worse, and so we're going to have to make those choices, but we want to do it in consultation with you. So I very much appreciate your willingness to take time out of your busy schedules to join us for this committee hearing today.

That is the conclusion of this first hearing on the administration's economic proposal and its impact on the commodity programs. We will be going on to a second hearing involving some economists and other agencies in this coming week, and then following that up with a hearing with the administration itself.

So thank you again for your participation. With that, we will adjourn this hearing.

[Whereupon, at 4:10 p.m., the subcommittee adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]



AMERICAN OAT ASSOCIATION
415 SHELARD PARKWAY
SUITE 101
MINNEAPOLIS, MN 55426
(612) 542-9817

**STATEMENT OF
GORDON BROCKMUELLER
AMERICAN OAT ASSOCIATION**

**BEFORE THE
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES**

MARCH 17, 1993

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you this afternoon to discuss the perspective of the American Oat Association regarding the economic outlook for the U.S. agriculture sector.

I am Gordon Bruckmueller, a farmer from Freeman, South Dakota, and a member of the American Oat Association Board of Directors. The membership of the American Oat Association (AOA) includes representatives of all aspects of the U.S. oat industry from production to consumption.

The United States became a net importer of oats in 1982. Oat imports have risen steadily since that time and currently account for approximately 17% of this country's total annual oat use. Increasing imports resulted from a lack of attention to oats in federal farm policy decisions and a world supply which was eager to meet the growing U.S. demand for food quality oats.

My message today is that the future direction, or lack of direction, of farm policy in this country may create situations where other commodities join the ranks of oats as imported commodities. If this Committee and this administration are not attentive to providing equity for agriculture during budget reductions, our production of agricultural products will suffer and our self-reliance in food production may be in jeopardy.

U.S. agriculture has weathered several budget cuts, including significant slashes in 1985 and 1990 when agriculture was burdened with a 5 year deficit reduction plan with close to $13.6 billion in spending cuts. About $11.2 billion of those cuts were in Commodity Credit Corporation (CCC) programs, including agricultural price supports.

About 4% of the entire federal budget is spent on agriculture — on guaranteeing a safe, reliable food supply. Of the USDA budget, more than half is spent on food and consumer services such as food stamps, the national school lunch program, and the Women, Infants and Children (WIC) program. Commodity programs related to agricultural production comprise less than 1% of the total budget.

Aside from new energy taxes which will severely impact agricultural production and processing, agriculture is being targeted for $8 billion in domestic spending cuts over the four years of President Clinton's economic plan. About $4.5 billion in cuts will involve Commodity Credit Corporation (CCC) programs, including price supports.

Cuts of this magnitude will put American agriculture at risk. Government will be asking American agriculture to bear an inequitable burden in the budget cuts and, as a result, other commodities may be placed in the same unenviable situation as oats.

The continued domestic shortfall of oats is of major concern to the AOA. We are extremely concerned about our growing reliance on foreign sources for a basic grain such as oats. We believe that American rather than foreign producers should be the beneficiaries of the growing consumer demand for oats.

The domestic shortage and, thus, the need for imports is a direct result of farm policy enacted in 1981, 1985 and 1990. The farm acts and implementation of the feed grains programs authorized under those laws, created inequities for oats in relationship to other grains. The programs set oat target prices too low relative to other competing crops to provide sufficient price protection and incentives for farmers to grow oats. In fact, the oat target price level is so low as to be non-functional, and when compared to Federal returns on competing crops, actually provides a disincentive to grow oats. Simply put, farmers make more money — from the market and from the Government — when they grow corn, wheat, sorghum or barley instead of oats. And even in those instances when the oats price is relatively strong, as it has been recently, oats becomes noncompetitive with the other commodities when Federal payments are calculated. However, because oats is an environmentally friendly crop, we believe there may be an opportunity for Congress and the administration to provide some help for oats in the new administration's farm policy package.

Oats — An Environmentally Friendly Crop

During the last decade, most Americans have learned of the important nutritional benefits of eating oats. What most Americans, including farmers, don't know are the environmental benefits of growing oats. Oats are an ideal "low-input" crop, which, when included in rotations, encourages crop diversity to control plant diseases, insects and weeds, and to reduce soil erosion. Oats does all this and more. In addition to the direct value of an oat crop — the grain and the straw — oats have value as part of agricultural systems that include several other crops in the rotations.

- **Each crop has its particular diseases and insect pests.**

Planting crops in a yearly rotation, e.g., oats–soybeans–wheat–corn, helps prevent destructive buildup of many disease organisms and insects. Keeping disease organisms and insects at low levels reduces the need for chemical pesticides. For

example, a three-year rotation of corn–oats–soybeans is effective in breaking the corn root worm extended diapause factor that is causing such a problem in corn–soybean rotations. The addition of oats in the rotation completely eliminates the need for corn root worm soil insecticides.

- **Oats greatly reduce the need for herbicides.**

Oats are solid-seeded and when planted early develop a dense cover that shades out competing weeds. The weed suppression effects of an oat crop can carry over to subsequent row crop if oats are included regularly in a crop rotation program. Oats are often used as a "natural herbicide" — grown as a companion (or starter) crop to help establish forage legume crops by shading areas where weeds would grow. Reduced herbicide use in oat production helps prevent contamination of surface and ground waters.

- **Agricultural crops are distinct in terms of the amount of nutrients they take from the soil.**

Oats require less nitrogen from the soil (or a minimum amount of fertilizer) compared to many other crops. For example, heavy applications of fertilizers, particularly nitrogen sources, are needed for maintaining high yields with continuous corn. Reducing fertilizer use is important for reducing both surface and ground water contamination with nitrates.

- **Oats provide excellent soil erosion control.**

Row crops leave a substantial surface area of soil exposed to wind and water erosion. The dense cover provided by oats helps prevent soil erosion. In certain crop rotations, oats also require less tillage for seedbed preparation, which further helps prevent erosion — the less one turns or disturbs the soil, the less the soil is susceptible to erosion. Farmers should consider the soil erosion control benefits of oats when developing their conservation compliance plans for highly erodible land (HEL). Those who have not completed their conservation compliance plans need to have them developed and fully implemented by January 1, 1995.

- **Oat stubble is an ideal medium for planting in a no-till or minimum-till program.**

More moisture is available for seedling establishment in oat residue compared to planting into row crop residue. Tests in South Dakota during dry years have shown a 15–20 bushel advantage for corn planted into oat residue compared to corn planted into soybean residue.

- **Oat production offers multiple advantages to U.S. agriculture and the environment.**

Oats help conserve soil, require less chemical fertilizers, pesticides and herbicides, reduce water contamination by agricultural chemicals, and provide better human and animal nutrition than other grains.

We believe that the time has come to encourage producers to avoid continuous cropping. Congress and the administration could do well by increasing the incentive for rotations and, specifically, for including oats in rotation. We suggest that Congress and the USDA revisit the Integrated Farm Management (IMF) portion of the 1990 Farm

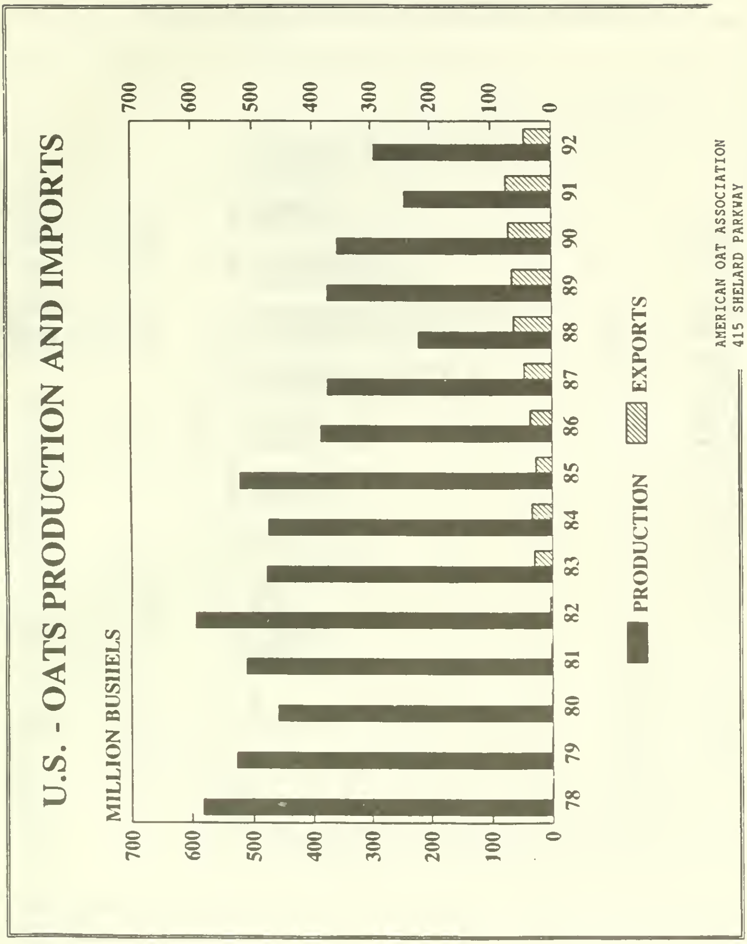
Act to implement what has, to this point, been a little known and little used provision which would encourage producers to use oats in rotation. It is our understanding that local ASCS offices do not understand the current provision and often discourage producers from using it.

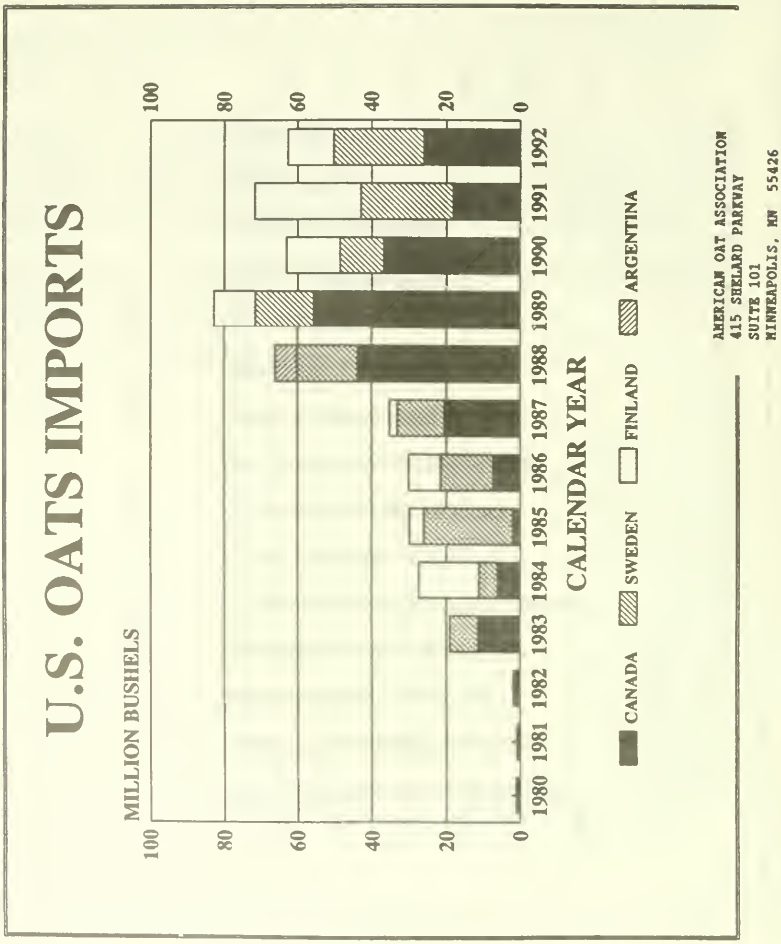
The Integrated Farm Management Program Option — Section 1451 of the Food, Agriculture, Conservation and Trade Act of 1990 — is the provision providing flexibility for conservation oriented farmers to adopt resource conserving crop rotations as part of a multiyear, site specific farm plan, without suffering major farm program penalties for stewardship practices. Unfortunately, the first two years of the program have been hampered by lack of interest and lack of coordination by the administering agencies.

If the 1990 language were clarified and enhanced, we may benefit from increased U.S. oat production while encouraging crop diversity, which would be advantageous for the future of U.S. agriculture.

Thank you for the opportunity to present this overview today.

(Attachments follow:)


U.S. - OATS PRODUCTION AND IMPORTS
MILLION BUSHELS
700
600
500
400
300
200
100
0
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
PRODUCTION
EXPORTS
AMERICAN OAT ASSOCIATION
415 SHELARD PARKWAY
SUITE 101
MINNEAPOLIS, MN 55426


U.S. OATS IMPORTS
MILLION BUSHELS
100
80
60
40
20
0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992
CALENDAR YEAR
CANADA
SWEDEN
FINLAND
ARGENTINA
AMERICAN OAT ASSOCIATION
415 SHELARD PARKWAY
SUITE 101
MINNEAPOLIS, MN 55426

OATS – SUPPLY/DISAPPEARANCE, UNITED STATES

CROP YEAR BEGINNING JUNE 1

	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93
	MILLION BUSHELS							
PLANTED ACRES	13.3	14.7	18.0	13.9	12.1	10.4	8.7	8.0
HARVEST ACRES	8.2	6.9	6.9	5.6	6.8	5.9	4.8	4.5
YIELD/ACRE	63.7	56.3	54.0	39.2	54.4	60.1	50.7	65.6
JUN 1 STOCKS	180	183	132	112	98	157	171	128
PRODUCTION	521	386	374	219	374	358	243	294
IMPORTS	27	36	46	63	66	63	75	50
SUPPLY	728	605	552	394	538	578	489	472
EXPORTS	2	2	2	2	2	1	1	1
FOOD	62	64	70	80	90	101	85	85
FEED	449	369	336	187	266	286	259	271
SEED	32	38	32	27	23	19	17	15
DISAPPEARANCE	545	473	440	296	381	407	362	372
MAY 31 STOCKS	183	132	112	98	157	171	128	100
STOCKS/USE	34%	28%	25%	33%	41%	42%	35%	27%
PRICES, NO. 2 HEAVY OATS, MINNEAPOLIS								
JAS	$1.30	$1.15	$1.74	$3.14	$1.56	$1.28	$1.37	$1.50
OND	$1.30	$1.59	$2.01	$2.81	$1.65	$1.28	$1.48	$1.60
JFM	$1.31	$1.55	$2.03	$2.65	$1.51	$1.25	$1.61	$1.65
AMJ	$1.19	$1.69	$2.44	$2.18	$1.61	$1.21	$1.57	
CROP YEAR AVERAGE	$1.28	$1.50	$2.06	$2.70	$1.58	$1.26	$1.51	
TARGET	$1.60	$1.60	$1.60	$1.55	$1.50	$1.45	$1.45	$1.45
LOAN	$1.31	$0.99	$0.94	$0.90	$0.85	$0.80	$0.83	$0.85

AMERICAN OAT ASSOCIATION
415 SHELARD PARKWAY
SUITE 101
MINNEAPOLIS, MN 55426

Agweek 3/15/93

SPECIALTY CROPS

Oats: Producing less, importing more

U.S. becomes world's largest importer of oats after production drops off because of falling profitability

The United States, once a major producer and exporter of oats, is now the world's largest importer, according to the Agriculture Department.

A decline in domestic oats supplies, combined with greater demand for high-quality oats for food and feed uses, accounted for the shift, according to an Economic Research Service report.

The United States was a net exporter of oats until 1982, it said, but in 1991-92 imported the equivalent of nearly 10 percent of total domestic supplies.

Sweden, Finland and Canada together have supplied the United States with about 70 million bushels annually since 1989-90, USDA notes.

Since 1950, planted and harvested acres of oats in the United States have declined steadily.

Yields have increased, but oats production has fallen from a high of 1.5 billion bushels in 1955 to an estimated 295 million bushels in 1992. Oats were planted on more than 47 million acres in 1955, but only 8 million in 1992.

While oats-planted acres in the United States continued to decline in 1992, the decline in harvested acres may be leveling off, ERS says.

The main reason for recent declines in harvested acreage is low net returns for oats in comparison with other grains.

Participants in government price and income support programs for oats expected oats returns to be around $35 per acre over variable costs. USDA economists say that if farmers planted wheat or barley on oats land, expected returns would have been about $20 per acre higher. This difference has caused farmers to switch oats acres to other crops.

A decline in domestic oats supplies, combined with greater demand for high-quality oats for food and feed uses, accounted for the U.S. shift from major exporter to biggest importer.

Also, U.S. livestock feeders now rely less on oats than on other feed grains. With a lower energy content, oats are not as efficient as corn for finishing or fattening animals, USDA notes.

In 1987, food use of oats began to soar after reports that oat bran reduced serum cholesterol. There were 50 million bushels of oats consumed as food that year, but by the beginning of the 1990s, food use exceeded 100 million bushels annually in the United States.

While food use has continued to climb, it is showing signs of leveling off, ERS says. □

— Associated Press

American Soybean Association

STATEMENT BY
LARRY DIEDRICH

FIRST VICE PRESIDENT
AMERICAN SOYBEAN ASSOCIATION

BEFORE THE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

MARCH 17, 1993

Good afternoon, Mr. Chairman. I am Larry Diedrich, a soybean and corn grower from Elkton, South Dakota, and First Vice President of the American Soybean Association. It is a pleasure for me to be here today to testify before this Subcommittee on behalf of soybean producers across this country.

The American Soybean Association represents 28,500 farmers in 29 states. I am here today to help you, as agriculture policy makers, understand the true concern in rural America over the President's proposed changes in commodity and rural programs.

Mr. Chairman, soybean farmers, just as most citizens, want to support the President's bold move to control spending and reduce the deficit, and we are willing to do our part to accomplish these goals. However, rural Americans should not be asked to pay more than their fair share.

American farmers are facing many uncertainties with the delays in the trade talks, faltering grain and oilseed sales to the Former Soviet Union, and additional environmental compliance requirements. We cannot survive as an industry without stability in our commodity programs and the opportunity to compete for world market share.

Agriculture has been part of every deficit reduction package. In fact, it is my understanding that over the last decade, agriculture spending has been reduced by $57 billion.

After these tremendous sacrifices, we are now asked to absorb three times more cuts in terms of the percent of budget than any other

non-defense domestic sector. Of the $150 billion proposed in spending cuts and fees for non-defense programs during FY 94-97, 5.4% are in USDA-administered programs.

Mr. Chairman, I can assure you that agriculture will do its share in shouldering the burden of deficit reduction. However, we cannot survive if we are time after time required to shoulder a disproportionate share. If the trend of cutting agriculture commodity programs continues at the present rate, I fear that we will be driven off the farm and out of business.

The President's budget impacts agriculture in many ways, but I will highlight only several that are of special concern to soybean farmers. I will begin by focusing on one problem that is specific to the oilseed industry and hits at the very heart of every soybean farmer---the loan origination fee.

The President's proposed plan would raise $900 million by increasing assessments on non-program crops by 66% in the 1995 Farm Bill. In practical terms, this means an increase in the origination fee from 10 cents to 17 cents per bushel of soybeans placed under loan.

The loan origination fee has already reduced the effectiveness of the marketing loan by discouraging participation. According to ASCS calculations, the origination fee has cut soybean loan activity in half from 1990 levels by increasing effective interest rates well above commercial levels (See chart, attached). Even at the 2% rate, ASCS projects future use will continue to decline (chart attached).

The origination fee is already preventing the loan from being a cost effective marketing tool for soybean farmers. A higher fee of 3.33% will result in little or no use of the loan, negating the revenue gains projected by this plan. No one wins with this proposed increase. The additional cost of participation will only futher discourage utilization of the loan and will provide no benefit to the soybean farmer or the Federal government. ASA is opposed to the origination fee and will strongly oppose any increase.

There are other aspects of the President's proposal that strongly affect American farmers, and I would like to mention several that are of special signifcance to ASA.

One issue of major concern to soybean producers across the country is the broad-based energy tax. This tax will affect virtually every aspect of farm activities, from the direct costs of diesel for tractors and equipment to indirect costs for pesticides and fertilizers. Rural Americans are also hit hard with increases in gasoline prices. We traditionally live great distances from towns where we must travel to obtain the most basic services such as

buying groceries and supplies and receiving medical care.

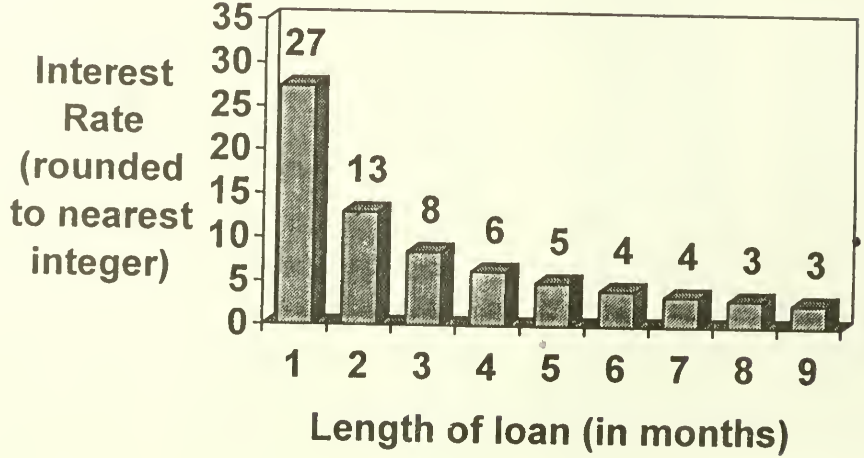
Mr. Chairman, soybean farmers not only are facing proposed changes in our domestic programs but also in our export development programs. We are very disappointed with the President's proposal to reduce development-oriented foreign food aid by $245 million and to cut $35 million in funding for the Foreign Agriculture Service. Food assistance programs have been an important market for U.S. soybean farmers and FAS is an effective agency that provides instrumental support for ASA's overseas operations. Any reductions in market development activities are counterproductive when we are facing tougher market competition.

In closing, I thank you, Mr. Chairman, and the members of this Subcommittee for your time and your genuine interest in agriculture. I hope that you will remember that farmers want to do their part to reduce our federal deficit and return our government to solid financial ground. However, I do not believe that these goals can be accomplished on the back of American agriculture. We must find a better solution where the burden is truly shared, not where agriculture is unfairly singled out.

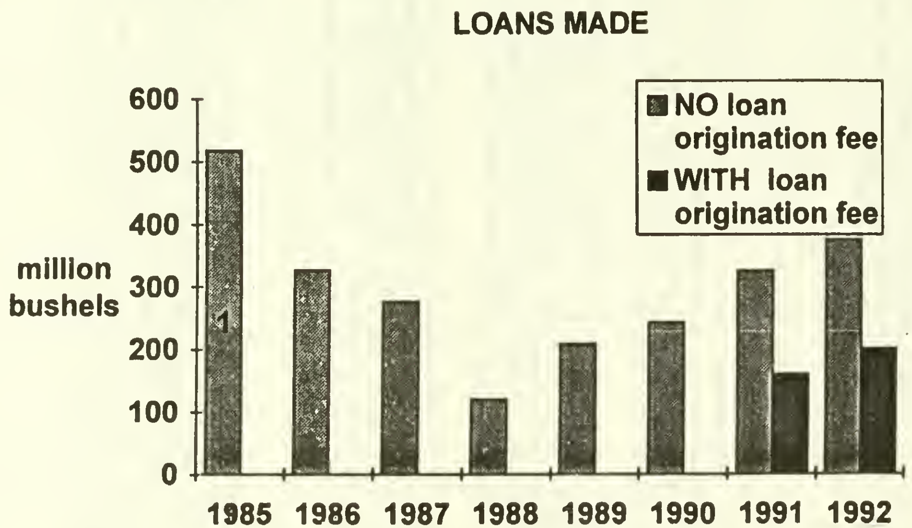
Thank you, Mr. Chairman

(Attachments follow:)

THE EFFECT OF A 2- PERCENT LOAN ORIGINATION FEE



LOAN ORIGINATION FEE CUTS SOYBEAN LOAN ACTIVITY BY HALF



Statement of Jeff Lundberg, President
National Association of Wheat Growers
Before the
Subcommittee on General Farm Commodities
of the
House Committee on Agriculture
on the Economic Outlook for Wheat and the Clinton Plan
March 17, 1993

Mr. Chairman and Members of the Subcommittee:

The National Association of Wheat Growers appreciates this opportunity to present its views to the Subcommittee on current economic conditions in the wheat sector of the economy and the affect the Clinton deficit and stimulus package will have on this outlook. I am Jeff Lundberg, a wheat farmer from Cheyenne, Wyoming and president of the National Association of Wheat Growers.

The U.S. wheat economy remains heavily dependent on exports. About one-third of each year's harvest is used domestically for bread, pasta, cakes, crackers and other food products, and another 10 percent is fed or used for seed. The remainder is available to the export market. Total supplies in 1992-93 amount to 3.0 billion bushels. This is not a record stock level, but it is nevertheless a very sizeable supply of grain.

Right now we are seeing a slow-down in export sales, primarily due to the lapse in commercial trade with the former Soviet Union (FSU) and the lack of Chinese wheat buying. These two countries are the biggest wheat importers in the world, and they can have a significant upward or downward affect on wheat prices and grower income. Prices now are about $1.00 per bushel below a year ago. Ahead is another large wheat crop produced under a zero acreage reduction requirement. A big feed grain crop also appears to be in our future.

Regarding the halt in normal trade with the republics of the former Soviet Union, we endorse Secretary of Agriculture Espy's strategy of seeking an interim trade solution for Russia and the other republics of the FSU, while also developing programs and policies which are tailored to continuing grain sales and food assistance to this region. The latter will take time, and this means that the timing and extent of interim steps will have a big impact on U.S. markets and farm income now and in the years to come.

This brings me to other trade matters. The NAWG continues to seek the implementation of an "end use certificate" requirement for imported grain and oilseeds, similar to that now applied by Canada to entries of U.S. grain. The certificate would establish the necessary monitoring system to narrow the likelihood that foreign grain could be merged into U.S. cargoes destined to be exported under USDA-supported programs. By requiring the importer of record to take responsibility for the foreign commodities he buys, the risk that a cargo of U.S. origin-only grain could be adulterated by one bushel of foreign grain would be greatly diminished. In doing so it would not restrict the use of foreign grain in the U.S. market. It could still be processed, fed or exported, but as the Congress has directed, it could not be exported under a U.S. taxpayer-supported program.

Recently, a binational panel issued a final report covering durum wheat imports from Canada. The report was the result of a dispute settlement proceeding conducted under the provisions of the U.S-Canada Free Trade Agreement (FTA). Above all, the panel report fully exposes the inequities contained in the FTA. It illustrates how Canada's only discipline on exports of wheat to the U.S. is to sell above the Canadian Wheat Board's initial payment to growers, a price which is typically considered to amount to 80 percent of a Canadian farmer's season average price. This is an untenable and injurious situation that will have to be addressed by the Administration and Congress in some manner soon.

The U.S. must also find a way to address Canadian eastern bound rail freight subsidies through Thunder Bay. U.S. producers are being severely harmed by Canada's use of these subsidies. The FTA's treatment of these "de facto" export subsidies as domestic subsidies is a long reach for U.S. wheat growers who find themselves unable to compete in their own domestic market because of unfair Canadian imports.

Finally, the durum panel report has an impact on how U.S. wheat producers should view the North American Free Trade Agreement (NAFTA). Despite its best intentions, it should be clear that the NAFTA, as written, would do nothing to restrict the use of domestic or export subsidies into the countries covered by the agreement. The problem of Canadian transportation subsidies must be addressed in a binding and satisfactory way within North America.

We have been asked about the content of U.S. farm policy and the effect of President Clinton's proposed economic package on these programs. The largest impact on wheat farmers in the Clinton Budget is the proposed 10 percent expansion of triple base (normal flex acreage) to 25 percent. Under this plan, one-fourth of a farmer's commodity program bases would not be subject to income protection. This is the rough equivalent of a 25 percent cut in the target price program. I want add that triple base is particularly unfair to wheat farmers who lack alternative planting options.

Growers would also be hard hit by plans to eliminate the 0-92 program. Elimination of the 0-92 and 50-92 programs will only produce budget savings if land set-aside requirements are increased for all program crop farmers. For growers, these programs have evolved into a risk management tool which can be used to mitigate the effects or drought, flooding and other weather calamities.

The President's proposal would also scrap the current crop insurance program and replace it with an untested experiment. Savings would come by cutting an already under-funded program and would move the Federal Crop Insurance Corporation (FCIC) to an "area-yield plan" under which a farmer is paid only when the entire county has a loss in yield. While crop insurance is not the perfect program, the concept of societal investment in risk management for food and fiber is sound. Extensive reform of crop insurance was initiated in the 1990 Farm Act, and these changes should be allowed to take root.

This concludes my remarks. Thank you Mr. Chairman for the opportunity to appear before your subcommittee. I will be pleased to respond to questions at the appropriate time.

Testimony of W. Neely Mallory, Jr.
Before the General Farm Commodities Subcommittee
of the House Agriculture Committee
March 17, 1993

Thank you Mr. Chairman. My name is Neely Mallory. I am a cotton warehouseman headquartered in Memphis, Tennessee. I also farm 200 acres of cotton in Arkansas, and I currently serve as president of the National Cotton Council in whose behalf my testimony is presented.

The National Cotton Council is the central organization of the American cotton industry, representing cotton producers, ginners, seed crushers, warehousemen, merchants, cooperatives and manufacturers. The cotton industry would like to extend its congratulations to you on being named chairman of the General Farm Commodities Subcommittee and to Mr. Emerson for being selected ranking member. We are committed to working with you and your colleagues on matters confronting our industry.

Certainly, we appreciate very much the opportunity to express the views of our industry on the vitally important issue before your committee today. It is especially exciting for me to be here on the day we celebrate as National Agriculture Day. Reports submitted with my written testimony provide additional analysis of the Administration's budget plan and its probable effect on American agriculture.

Mr. Chairman, the U.S. cotton economy is surprisingly strong, given the generally poor economic conditions in the U.S. and even worse conditions in other parts of the world. Net domestic consumption of cotton reached an all-time high of 14.7 million bales in 1992. That total includes 6.7 million bales which were imported into the U.S. in the form of textiles and apparel.

U.S. textile mills consumed cotton at a very healthy rate of 9.8 million bales last year, and of that total, 1.7 million bales moved into the export market in the form of yarn, fabrics or manufactured textile products. We also exported 6.6 million bales of raw cotton.

So, on the demand side, the numbers are quite good: a record level of cotton consumption by American <u>consumers</u>; the highest level of U.S. <u>mill</u> consumption in 25 years; and <u>exports</u> at a respectable level, despite a large global surplus of cotton.

We <u>are</u> confronted with surplus stocks of cotton, but fortunately they have accumulated abroad and not in the U.S. These surplus foreign stocks have put intense pressure on the world price. Making matters worse, the Central Asian republics of the former Soviet Union have been entirely undisciplined and unrelenting in their aggressive pricing of cotton. These cash-starved republics are selling cotton into the world market at prices 10 to 17 cents a pound below quotes for U.S. cotton delivered to the same destinations. Before the breakup

of the Soviet Union, most of this cotton was delivered to Russia, Ukraine and Eastern Bloc countries. The Central Asian cotton formerly delivered to western destinations was marketed by Russia and usually priced at, or slightly above, the average world price.

National Cotton Council economists estimate that "fire-sale" pricing of Central Asian cotton reduced the world price as much as 12 cents a pound last season which, in turn, added almost $600 million to cotton program cost in the 1992 fiscal year. The Central Asian influence is expected to add upwards of $1 billion to our program cost in fiscal year 1993.

We don't see an immediate end to this problem. In fact, humanitarian food aid and credit programs which have moved grain into former Soviet republics tend to encourage Central Asian land to be planted to cash crops such as cotton rather than food crops. Until these republics make some real progress in their transition to market-based economies, their cotton will continue to chase down the world price and add to our program cost.

We don't share these observations to be critical of U.S. credit and food aid programs for these fledgling democracies. In fact we have asked USDA to work with us to explore how cotton can be made a part of such programs as a means of at least mitigating the cost to our program. We simply want to point out that the aid we provide is a two-edged sword. The humanitarian and long-term economic aspects are obvious. But there is a cost, too, and we believe cotton has borne a disproportionate share of it so far.

Mr. Chairman, we are able to deliver a generally positive report on the U.S. cotton economy because we have a program that works quite well. It was designed by Congress to ensure that the U.S. was no longer forced to carry stocks for the whole cotton-producing world in periods of over production. Instead, the objective of cotton's marketing loan is to ensure that U.S. cotton can be generally price-competitive under all supply and demand conditions.

The cotton program approved in 1985 farm law, and improved in 1990 legislation, has performed well in achieving this objective. At the same time, it has provided price and supply stability for the American cotton industry and American consumers. Now, after seven years of highly satisfactory experience with our program, we are concerned that its effectiveness could be undermined by budget driven policy changes.

Mr. Chairman, I want to begin my remarks about the Administration's budget plan by commending both the Administration and the Congress for making deficit reduction a high priority. It is a problem that cries out for resolution...one which can be resolved only with broad-based sharing of any increased taxes and service reductions. Agriculture has a responsibility to shoulder its fair share of the deficit reduction burden -- **but only its fair share.**

We would respectfully submit that government's responsibility to fairly apportion increased taxes and service reductions includes taking into account the contributions already made by agriculture and others. We believe the significant reductions already made in farm spending

should mitigate program reductions imposed on agriculture as a part of the deficit reduction initiative in 1994.

For example, we think it is highly significant that farm program spending was reduced by two-thirds between 1986 and 1992 while total federal spending continued to rise and the deficit continued to soar. And we are concerned that, despite these deep cuts already made in agricultural spending, the budget plan now under consideration would continue to make bigger demands on agriculture than on other segments of the nation's economy.

According to our calculations, the budget resolution calls for farm program spending to be reduced 26% from the baseline by 1997, while total spending would be reduced only 7%. **This means that agricultural spending would have been reduced 75% from 1986 levels, while all federal spending would have risen by 75%.** This is especially hard to understand considering that agricultural outlays account for less than 1 percent of total federal spending.

Mr. Chairman, as we understand the budget resolution recently reported by the House Budget Committee, it would require cuts of about $5.0 billion in agriculture's mandatory programs during the fiscal years 1994-1998. While the cuts in fiscal '94 and '95 would be relatively small, the cuts in fiscal '96, '97 and '98 would be large. Our concern is that this subcommittee could find its policy options significantly limited when developing the 1995 farm bill. We are deeply concerned that cuts of this magnitude would trigger a divisive debate over targeting of benefits - an option that is deeply troubling to cotton producers whose costs and value of production per acre are relatively high. We also understand there are significant cuts slated for discretionary programs. These too are troubling to an industry that needs effective research programs to ensure we remain competitive in world fiber markets.

The budget resolution also includes a BTU based energy tax. Our initial analysis indicates the tax could add about $2.50 per acre to the average cost of production. The cost, which includes a number of assumptions about how the tax might apply, would be higher in the irrigated West and slightly lower in dryland farming areas. We also estimate that the tax would increase the cost of ginning by approximately 25 cents per bale. While we don't have figures yet, you should also be aware that textile processing is relatively energy intensive, so mills will undoubtedly experience increased cost. Synthetic fiber producers also use large amounts of energy, but if feedstocks are exempt they may not be quite as seriously affected as cotton producers.

Obviously, a BTU tax will add to the cost of production and since prices are set by a world market there is no assurance the increased costs can be passed-on.

On the positive side, the investment tax credit and target capital gains tax proposals would benefit agriculture. We were relieved that the budget package does not include any reduction in the estate tax deduction.

Mr. Chairman, we are mindful of the President's challenge to offer specific alternatives to those policies you don't like. We are concerned with the magnitude of the out-year cuts and the potential impact on future farm policy. We hope the level of reduction in the ultimate budget resolution approved by the conference committee will be closer to the level approved by the Senate Committee last week. We also hope this subcommittee and the full committee will reject any proposal to make the reductions by resorting to targeting or means-testing. We will pledge our cooperation in working with you and your colleagues to maintain viable and effective programs.

We know the Administration's plan would put some money back into rural communities through its economic stimulus provisions. While there is a clear need for economic stimulus in rural America, we believe that, by far, the most effective component of any economic stimulus package for rural communities is sound, workable farm programs that:

- permit U.S. ag products to compete in a world market so replete with foreign subsidies that this country's programs look small by comparison...
- provide U.S. negotiators with the leverage needed to achieve fair and equitable agricultural provisions in GATT...
- avoid loss of the U.S. agricultural production base to foreign competitors...
- avert a free-fall in U.S. agricultural land prices and severe damage to rural economies, and ...
- provide Americans with continued access to the lowest cost, safest, food and fiber supply in the world.

We are at a crucial point in GATT negotiations, and unilateral reductions by the U.S. will send a clear signal to other countries that there is no need to further negotiate...that the U.S. is throwing in the towel and does not intend to be competitive in global agricultural trade.

Before we go further down the road of reduced farm spending, policymakers should be aware that more reductions in agricultural programs will **not** facilitate their desired result of deficit reduction, but will, instead, end the effective implementation of U.S. agricultural policy, causing a ripple effect that will ultimately damage the economic well-being of all of rural America.

Good, workable commodity programs are crucial to keeping U.S. agricultural products competitive, for promoting market growth, for generating revenue and taxes and, importantly, creating **jobs – 21 million of them.**

Agricultural program expenditures meet the President's investment and return criteria. For example, a cotton program investment of $12.50 per American household saves $130 in the retail cost of apparel and home furnishings.

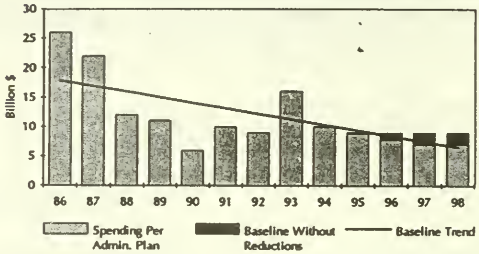
Mr. Chairman, the President said, "we ought to be subsidizing the things that work and discouraging the things that don't."

We believe agricultural programs have earned the right to be counted among the programs that work. They are worth the investment. We look forward to working with you and the members of this subcommittee to craft programs which stimulate farm income, allow us to be competitive and allow us to continue to provide American's with a competitively priced, quality product.

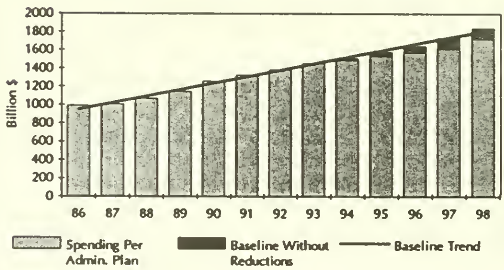
(Attachments follow:)

THE FEDERAL BUDGET AND AMERICAN AGRICULTURE

Total Farm Spending



Total Federal Spending



National Cotton Council OF AMERICA

THE FEDERAL BUDGET AND AMERICAN AGRICULTURE

Executive Summary

- The Federal deficit is a very serious problem...one which cries out for resolution...one which can be resolved only with broad-based sharing of any increased taxes and service reductions. Agriculture has a responsibility to shoulder its fair share, and only its fair share, of the deficit reduction burden.
- The government's responsibility to fairly apportion increased taxes and service reductions includes taking into account the contributions already made by agriculture and others. To do otherwise is analogous to decreeing that income taxes withheld from wages and other forms of tax prepayment don't count toward fulfilling one's tax obligation.
- **Farm Program spending was reduced by two-thirds between 1986 and 1992. Meanwhile, total federal spending has continued to rise and the deficit has continued to soar.** The reason is apparent enough. Too much focus has been on agricultural spending which accounts for less than 1 percent of total federal spending.
- Under the Administration's budget plan, agricultural spending is again slated for substantially larger reductions than other programs. By 1997, farm program spending would be cut by 26 percent from baseline projections, while total federal spending would be cut only 7 percent. **This means agricultural spending would have been reduced a whopping 75 percent from 1986 levels, while all federal spending would have risen by 75 percent.**
- Meanwhile, the foreign world would welcome the good news that there was no longer a need to negotiate agricultural provisions of GATT, since the U.S. was throwing in the towel.
- Given the prevailing world situation, now is not the time for government to be pulling the rug from under American agriculture. **The European Community (EC) has more than doubled its agricultural program expenditures since 1986, while U.S. expenditures have been cut by two-thirds.**
- It serves no useful purpose for the U.S. government to unilaterally "disarm" at this critical juncture in GATT talks. The EC subsidizes cotton and wheat at **twice** the U.S. target prices; corn, grain sorghum and rice are subsidized at nearly **three times** U.S. target prices.
- Large foreign subsidies, that will not be reduced according to GATT terms currently under consideration, have "bought down" world commodity prices below the cost of production. Further limitations on payments and means testing will deny a significant percentage of U.S. output the ability to be globally competitive in this environment.
- **A bedrock principle in any U.S. budget plan should be: No further reductions in U.S. agricultural programs until terms have been reached in GATT and other international trade agreements for matching reductions by foreign nations.**

- The Administration's rural development objective can best be achieved by retention of workable commodity programs that permit U.S. agriculture to participate in the international trade arena under prevailing ground rules.

- President Clinton, in his State of the Union address, said "we ought to be subsidizing the things that work and discouraging the things that don't." Agricultural programs have earned the right to be counted among the "things that work." **Returns to America include: The world's safest and lowest cost food and fiber supply for American consumers...A job for one out of six Americans...A $16 billion positive trade balance for the nation's economy.**

- The President pointed to immunization of children as an example of a good investment because it saves $10 for every $1 spent. Agriculture can point to similar returns on investment. **The government cotton program, for example, saves each American household $10 in apparel and home textile expenditures for every $1 of tax money invested in the program.**

- Agricultural programs are worth the investment. Further program reductions will not facilitate the Administration's objective of deficit reduction but will, instead, set off a ripple effect that will damage the economic well-being of rural America.

(The complete report is held in the committee files.)

WORLD COTTON PRICES AND FORMER SOVIET UNION
Analysis Prepared By
The National Cotton Council
February 1993

The dissolution of the Soviet Union into independent republics has disrupted several international markets in precious metals and agricultural commodities. Currency difficulties have led to barter arrangements and many commodities originating in the former Soviet Union have been priced far below general international values. This market disruption affects U.S. agricultural commodity program outlays. In particular, it is shown here that the cumulative effect of the Soviet Union collapse on the U.S. cotton program exceeds $1.1 billion for fiscal year 1993. This increased cost is not considered to be a permanent rise in program outlays, but it should be recognized as a short-term cost while a more market oriented economy develops in the former Soviet Union.

An Introduction to the International Cotton Market

The cotton marketing year runs from August 1 to July 31. The world began the 1991-92 marketing year on August 1, 1991, using cotton at an annual rate of 85.4 million 480-lb. bales. The world's carryover stocks on August 1, 1991 were an estimated 28.7 million bales, which was a 33.6% stocks-to-use ratio. In agricultural commodity markets, stocks-to-use ratios are standard measures of market tightness or slack. A rule of thumb for cotton is when the world's stock-to-use ratio moves over 40%, surplus stocks are likely to exist.

The accepted benchmark of world cotton prices is the "A" Index, published by Cotlook Ltd. of Liverpool, England. This daily price index is derived from quotes for Northern Europe mill delivered cotton of grade 31 staple 35. For the marketing year 1990-91, which ended July 31, 1991, the "A" Index averaged 82.95 cents per pound. The U.S. average price received by farmers for the marketing year was 67.14 cents per pound. The 15 cent spread between the 1990-91 annual average "A" Index and the U.S. average farm price is near the 15-year average spread of 14 cents.

Changes in the Former Soviet Union

The 1991-92 cotton marketing year saw phenomenal changes around the world. The dissolution of the Former Soviet Union (FSU) during the prior marketing year left unusually large stocks of cotton in the Central Asian cotton producing republics. Disagreements as to ownership and disruptions in the transportation system strangled the flow of cotton from these FSU republics. Estimated FSU stocks in August 1991 were 3.4 million bales compared to a five year average of 1.9 million of carryover stocks.

By the early fall of 1991 the governments of the Central Asian

republics began to exert their control over the existing cotton stocks and the crop being harvested. As a result of losing Moscow directed shipments these governments sought a number of commodities and manufactured goods in the international market, but they had no foreign exchange with which to buy them. However, they did hold large stocks and were in the midst of harvesting an internationally traded commodity -- **COTTON**.

A number of barter arrangements were struck with their suppliers. As one would expect from a country attempting to barter for badly needed goods and uneducated in market forces and practices, it would appear that most cotton from the FSU was acquired at values far below general international prices.

A History of Russian Cotton Quotes and Exports

An examination of the quote for Soviet Union (USSR) cotton mill delivered to Northern Europe shows a striking break in the price pattern associated with the creation of the Commonwealth of Independent States (CIS). Prior to the dissolution of the Soviet Union, the quote was seldom below the "A" Index. In the marketing years 1986/87 and 1987/88 the quote for Soviet Union cotton was the lowest in the "A" Index a total of 34 times out of 300 business days. For the two marketing years from 1986 to 1988 the USSR quote averaged 102% of the "A" Index.

AVERAGE NORTHERN EUROPE MILL DELIVERED QUOTES

Marketing Year	USSR	"A" Index
	cents/lb.	
1986/87	62.63	62.14
1987/88	74.18	72.32
1991/92	59.39	63.04
1992/93	51.30	56.33

Conversely, for the 1991/92 marketing year the USSR quote, now referred to as "Central Asian," was 3.63 cents below the "A" Index and was the lowest quote in the "A" Index for all but two days of the entire year. Through early February 1993 the Central Asian quote again was the lowest quote and averaged more than five cents below the "A" Index. Remember, too, one reason the spread is not greater is that the Central Asian quote is part of the "A" Index, thereby reducing the average.

Not only has the price of Central Asian cotton been heavily discounted, but the quantity moved onto international markets has changed dramatically. In the past, FSU cotton supplied mills in

Russia and Ukraine as well as the COMECON nations[1]. The five-year average, through 1990, of exports outside of the FSU and COMECON was 1.1 million bales.

USDA now estimates that the Central Asian republics exported 2.5 million bales of cotton in 1991-92 to destinations outside the FSU and former COMECON nations. These exports from Central Asia entered the market at a time of shrinking world export demand, thus further depressing world prices.

The 1991-92 Cotton Marketing Year

In 1991-92, world cotton production was 96 million bales. Unfortunately, the world economic recession resulted in cotton consumption of only 85 million bales. USDA estimates that world trade in cotton fell to 22.3 million bales during the crop year as world mill use felt the recession's impact. This was down from a five-year annual average trade of 24.6 million bales. Thus, with the increased trade from the FSU, which was obtained at values far below international prices, offering prices for cotton from less developed nations were also depressed.

Less developed nations, especially those in Africa, do not possess adequate infrastructure for management and storage of stocks. Quotes for cotton exports from a number of these nations routinely chase down prices to ensure sufficient sales and minimal carryover. A number of cotton origins quoted in the "A" Index joined the Central Asian downward price spiral. Consequently, a far lower "A" Index was realized than envisioned by the industry or estimated by any heretofore reliable price models.

Models of World Cotton Price

The International Cotton Advisory Committee (ICAC) publishes forecasts of annual average world cotton prices ("A" Index) for the current and coming season in its bi-monthly magazine *Cotton*. During the 1990-91 cotton marketing year, ICAC's forecasts were within a few percentage points of the resulting annual average price of 82.95 cents per pound. Reflecting world cotton market conditions, ICAC's bi-monthly forecasts for 1991-92 were 9 to 10 cents below the previous year's price. However, this lower price forecast was still 10 cents per pound above the eventual annual average of 63.05 cents. **ICAC's model was able to predict only 10 cents of the 20 cent decline in prices between the two crop years!**

Economists at the National Cotton Council (NCC) developed a model of world cotton prices to assess the impact of stocks/consumption relationship and Chinese net trade in cotton on world cotton

---

[1] COMECOM nations are Albania, Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, and Vietnam.

prices. NCC's model also proved reliable over a 15 year period ending with the 1990-91 crop year. However, the 1991-92 price estimate was 12 cents per pound over the actual annual average price of 63.05 cents.

The two models employ slightly different measures of the world cotton stocks-to-use ratio excluding data from mainland China and an additional variable for mainland China's net cotton trade. Both models associate supply/demand conditions with annual average world prices. Despite the slightly different constructions, the two models produced almost identical results.

The U.S. Cotton Marketing Loan

The U.S. cotton marketing loan was introduced in the 1985 farm law. Several technical amendments were used to improve on the initial legislation during the life of the 1985 farm bill. The key element in the cotton marketing loan is the discovery of a world average spot price for cotton expressed as an interior U.S. cotton price, known as the Adjusted World Price (AWP). A well-defined procedure now establishes a weekly AWP for upland cotton. The AWP procedure employs the "A" Index as a starting point.

The cotton marketing loan is designed to allow the orderly marketing of the crop using the Commodity Credit Corporation (CCC) loan without having the CCC loan rate support world cotton prices. Prior to the advent of the marketing loan if world prices fell below the CCC loan rate, cotton would accumulate in the loan, U.S. exports would fall, and U.S. mills would pay raw cotton prices significantly higher than those faced by competing foreign mills.

The cotton marketing loan allows cotton to be redeemed from the CCC loan at the lower of the AWP or the loan rate plus interest and storage charges. The lower the world price ("A" Index), the lower the AWP. When the AWP falls below the CCC base loan rate for upland cotton (50.77 cents per pound in 1991, 52.35 cents in 1992 and 1993) the marketing loan is activated. Thus, the impact of the dissolution of the FSU on the world cotton price translated directly into increased cost in operating the U.S. cotton marketing loan.

Council economists estimate that the "A" Index was **at least** 10 cents a pound lower than world supply/demand conditions warranted in 1991-92 as a result of dumping by the Central Asian republics. This resulted in an AWP which was correspondingly 10 cents a pound lower than warranted.

The AWP for 1991/92 was 47.3 cents per pound and through February 12, 1992 the AWP has averaged 42.15 cents for the 1992/93 marketing year. Since cotton is redeemed at the AWP when the AWP is below the loan rate, marketing loan benefits totalling an estimated $555

million were paid out in fiscal year 1992 (FY92)[2]. Had the average "A" Index been near the price predicted by the two models (75 cents per pound), the average AWP would have been 57 cents in 1991/92. In any year the "A" Index, and consequently the AWP, can vary by as much as 10 cents around the annual average, given the usual seasonal fluctuations of an agricultural commodity's price. Thus, in 1991/92, without the Central Asian fire-sale tactics, world supply/demand conditions would probably have generated some periods when U.S. marketing loan gains would have existed. However, from the price models it is clear that the marketing loan cost would have been far less than $555 million.

The Central Asian problem also directly affected the upland cotton average price received by farmers. When cotton is redeemed from the CCC loan, its value as reported to USDA's National Agricultural Statistical Service (NASS) for determining the price received by farmers, is the loan redemption rate plus any "option to purchase" value. When the AWP is below the loan rate, cotton is redeemed at the AWP. Thus, the extent to which the AWP was pushed below the loan rate due to Central Asian dumping directly increased upland target price deficiency payments.

Not all cotton is marketed through the CCC loan, of course. Still the AWP is the most important determinant in the price received by farmers whether or not the cotton is marketed using the CCC loan. That is because the U.S. cotton program allows producers to forego use of the loan and receive a loan deficiency payment equal to the difference between the AWP and the CCC loan rate. So, whether the loan is used or bypassed, the AWP remains the most important determinant in establishing the average price received by farmers.

The calendar year average price received by farmers is used to determine target price deficiency payments. For 1992 the average price received was 52.60 cents per pound. Given the target price of 72.90 cents per pound, eligible 1992 production received a total deficiency payment of 20.3 cents. Due to frozen payment yields and non-payment acres, an average cotton producer received target price protection on only 71% of production. Deficiency payments made in fiscal year 1992 were $750 million.

<u>The 1992-93 Cotton Marketing Year</u>

ICAC's most recent forecast of the average world price for the 1992-93 marketing year is 74 cents per pound. The estimate from the NCC price model is virtually identical. Through early February 1993 the "A" Index averaged 56.33 while the average AWP was 42.15

---

[2] The federal fiscal year is October 1 through September 30 while the cotton marketing year is August 1 through July 31. Payments made under the marketing loan and target price programs overlap fiscal and crop years.

cents. The Central Asian quote has been the lowest quote in the "A" Index since the beginning of the marketing year. Evidence is accumulating that the 1992-93 price experience is being affected in the same manner as 1991-92, if not by an even greater amount.

U.S. Cotton Program and Cost Estimates

Government program cost is reported as fiscal year (FY) outlays while cotton production and consumption statistics are reported on a marketing year basis. Council economists have closely examined the impact of the Central Asian quotes and attempted to place corresponding impacts in fiscal year outlays. Specifically, historically reliable price models strongly suggest the influence of Central Asian cotton is responsible for reducing the world cotton price by at least 10 cents in 1991-92. Thus far in 1992-93, both price models indicate the impact of Central Asian cotton has been to lower world cotton prices by 15 cents below expectations, given market conditions. However, given recent movements in world cotton price, the 10-cent impact on world price and the U.S. AWP was employed in all three fiscal years.

The ICAC and NCC world price predictions of 74 to 75 cents per pound would be consistent with a U.S. upland cotton average price received by farmers of 60 to 61 cents. The average price received by farmers for 1992 was 52.6 cents. USDA has announced an advance deficiency payment at sign-up for 1993 of 10.275 cents. This is 50% of the expected total target price deficiency payment of 20.55 cents, or an average price received of 52.35 cents. Lower world prices have reduced the U.S. upland cotton average price received by farmers by **at least 7 cents per pound.**

The following table shows cotton program costs associated with the actions of the Central Asian republics.

USDA Actual and Projected CCC Cotton Outlays
(Millions of Dollars)

	FY92 Outlay Actual	Cost of Central Asian Actions	Net Cost Without Central Asian Actions
Target Price Payments	$ 747	$ 120	$ 627
Net Loan Cost	555	423	132
User Certificates	140	20	120
TOTAL	$ 1,442	$ 563	$ 879

	FY93 Outlay Predicted (USDA)	Cost of Central Asian Actions	Net Cost Without Central Asian Actions
Target Price Payments	$ 1,183	$ 571	$ 612
Net Loan Cost	1,054	471	583
User Certificates	200	70	130
TOTAL	$ 2,437	$ 1,112	$ 1,325

	FY94 Outlay Predicted (USDA)	Cost of Central Asian Actions	Net Cost Without Central Asian Actions
Target Price Payments	$ 971	$ 521	$ 450
Net Loan Cost	1,171	579	592
User Certificates	175	50	125
TOTAL	$ 2,317	$ 1,150	$ 1,167

Statement of Alfred G. Montna
Chairman, U.S. Rice Producers' Group
Yuba City, California

Before the

Subcommittee on General Farm Commodities
House Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

March 17, 1993

Mr. Chairman,

My name is Alfred Montna. I am Chairman of the U.S. Rice Producers' Group, an organization that represents rice producers in the major rice producing States. I am a rice producer from California and also Chairman of the Farmers' Rice Cooperative in that State.

I appreciate the opportunity to testify today before the Subcommittee. This is my first opportunity. Many of you are new to the Committee and the Congress, and I wish to offer my congratulations. I look forward to working with you in the future and offer the cooperation of our Group in your endeavors.

Rice is a nutritious product and the mainstay in the diets of many persons in our world population. For the 1992-1993 marketing year it is estimated that the United States produced almost 180 million cwt. of rice. The principal rice producing states are Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. Rice production, processing and marketing is a 3 billion dollar industry and is important to the local economies in each of the States. Rice is used domestically in packaged form, cereals, processed foods and in beer. The balance is exported. Farmers, millers, shippers, farm suppliers, aerial applicators, package makers, equipment manufacturers, warehousemen, port authorities, stevedores and related businesses all have a stake in the economic health of the rice industry.

The United States is the second largest exporter of rice in the world. Exports from the United States represents approximately 18 percent of world exports. Exports from the United States are predominantly commercial exports although rice is also exported under the various food assistance programs. The United States is not the primary rice producing country, and, accordingly, domestic and world market prices are not determined by domestic production but rather by rice produced abroad, predominantly in Thailand.

As you know, in 1985, the legislation governing the rice price support program was changed to a target price and marketing loan program so that producers could obtain a loan at the specified rate and redeem their loan at the world market price, as determined by the Department of Agriculture, if it should be lower than the loan rate. This was supplemented by deficiency payments between the target price and the loan rate. The program was a marked departure from the previous program under which producers received a loan at a high support rate and would forfeit their collateral (the commodity) to the USDA if the market price was at a lower level. This resulted in ever increasing Government stocks causing large losses to the Government and by-passing commercial markets. The program has proved highly successful. Government stocks were depleted and producers were encouraged to use commercial channels for moving their rice onto the market. The program was initiated at the same time for cotton and has since become a model for other crops. It is our hope that it is continued in the future.

From the time the program was initiated until the present time the benefits under the program have been reduced. The initial reductions came through reductions in the target price. The 1990 farm bill initiated reductions through a different device; namely, through the so-called triple base, under which a producer would not receive payment on 15 percent of the acreage that was put under the program for the year. In effect, it represents a 15 percent reduction in payments. Additionally, more and more production has not received income support through deficiency payments as yields have increased while payment yields have been frozen at historical levels.

Chairman de la Garza has spoken at length concerning the budget cuts that have been made in the agriculture programs-cuts that are disproportionately severe to the agriculture programs as contrasted with other sectors of the economy.

Agricultural outlays account for less than 1 percent of total federal spending. Even if farm program spending were completely eliminated, the impact on deficit reduction would hardly be noticeable. We recognize that agriculture must bear its fair share of cuts in the future as attempts are made to bring the budget deficit under control but only its fair share.

We note that once again in the House severe cuts in the agriculture commodity programs have been recommended by the Budget Committee. These amount to some $4.9 billion over a five year period, the amount recommended by the Administration. These cuts again are proportionately far in excess of the cuts that are projected for other segments of the economy, and if agreed to will only hasten the exit of farms from rice production in certain areas of the United States. We also note that the Senate Budget Committee has recommended a smaller cut for the agriculture entitlement programs - a cut of $2.7 billion. We strongly recommend that members of this Committee press for acceptance of the smaller figure. Continuation of the farm programs in their present form are needed to sustain farm income as the farm economy adjusts to greater and greater reliance on receiving its returns entirely from the marketplace.

There appears to be a perception among the uninformed that the rice producers are receiving government subsidies that are making them rich. This is far from the truth. Per acre costs of production of rice are particularly high because of the high cost of inputs including irrigation water, drying expenses, seed, fertilizer, and energy. These costs have been increasing in the last few years at the same time that benefits have been declining. In some rice producing areas, producers are operating at a loss and are discontinuing production; in other areas, margins have been decreasing to the danger point. If one takes account of full economic costs on a national basis, returns from rice production are only slightly more than the total cost of production.

Before long, the Agriculture Committee will be faced with the need to make decisions on how the cuts are to be apportioned among the various agriculture programs. At this time I would like to make certain general recommendations. We will be making more specific recommendations at a later date after we have reviewed certain studies now in progress.

In reducing federal outlays for the agriculture programs, they should be fashioned so as to protect farm income to the extent possible. Any cuts in farm income impact adversely not merely on the producers concerned, but as I stated at the beginning of my testimony, on the rural economy as well. Producers that discontinue farming and other persons in rural areas that lose jobs as a consequence will probably join the migration to the cities. The net result is further pressure on the federal budget.

If one must make cuts in the commodity programs, we recommend that the 50/92 program be left intact. It is important as a type of disaster assistance, to provide relief in the event of prevented planting when there is a drought as occurred in the past few years in California. It is also important for environmental reasons to provide additional wildlife habitat, an opportunity to rotate acreage of production, and for income stabilization.

We likewise do not support any means test as a prerequisite to program benefits. This is a proposal that has originated with OMB each year for the last number of years, and with good reason has never yet been agreed to in Congress. It would change the direction of the farm programs from a supply adjustment program to a welfare program and ultimately lead to the demise of the entire program. We need full participation in the program to attain program objectives which now include many environmental benefits that are tied in with program participation.

We also wish to comment on the proposed energy tax. The impact of the tax on agriculture is perhaps more severe than on any other sector of the economy. First, farmers are dependent on energy that would be subject to the tax for the major portion of their inputs. It is used directly to drive the tractors, and combines, to run the irrigation pumps, and to run the drying equipment. It also is an important factor in the production of anhydrous ammonia and urea, two most important fertilizers and in the production of pesticides used on the farm. Some equate a b.t.u. tax of 40 cents per mm btu as equivalent to a 5 cents per gallon gasoline tax. Beyond these huge increase in costs, the rice community has no way of passing on these extra costs in the price charged for rice. Domestic rice prices, as I have previously mentioned, are determined by world prices and thus any energy tax merely means a further cost-price squeeze pressed on the rice

community. The impact will be to drive many more persons out of rice production.

In order to prosper in the long run with reduced Government assistance, rice producers must decrease their costs and increase their markets. Research programs are focussing on methods to increase yields with fewer inputs, but just as importantly we need improved access to foreign markets. To this end, we have encouraged the Administration to negotiate in the Uruguay Round for improved access to the European Market which is gradually being lost by unfair production subsidies. We need access to Pacific rim countries which are now completely barred -- countries such as Japan, Korea, and Taiwan. If unsuccessful in the Uruguay Round, we are poised to join with the Rice Millers Association in renewing a section 301 petition to this end.

Additionally, we are supportive of the NAFTA and hope to see it come into effect as scheduled on January 1, 1994. NAFTA provides for a ten year phase-out of the tariffs on imported rice from its present level of 20 percent on milled rice and 10 percent on paddy rice. Mexico is already a major market and promises to become an even larger market as its rice tariffs are reduced under NAFTA. Mexico is increasingly dependent on imported rice due to decreasing production and trade liberalization, and Congressional approval of NAFTA would do much to assure that the U.S. obtains major benefits from this potential.

This concludes my prepared remarks, and I would be pleased to respond to any questions.

Thank you, Mr. Chairman.

STATEMENT BY
ALAN STATES

BOARD OF DIRECTORS
NATIONAL SUNFLOWER ASSOCIATION

FIRST VICE PRESIDENT
U.S. CANOLA ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

MARCH 17, 1993

Good afternoon, Mr. Chairman, and Members of the Subcommittee. I am Alan States, a wheat, grain sorghum, sunflower, and canola producer from Logan, Kansas. I am a member of the Board of Directors of the National Sunflower Association and the U.S. Canola Association, which I currently serve as First Vice President.

For brevity, Mr. Chairman, I will present my remarks from the perspective of the U.S. sunflower industry. With regard to key aspects of farm policy, however, the views of the canola industry are very similar.

Outlook for Sunflower Industry

First of all, Mr. Chairman, I want to emphasize that the policies Congress enacted in the 1990 Farm Bill are working extremely well for the sunflower industry. Before 1990, producers were locked into planting their program crops in order to be eligible for deficiency payments. The rigid base gridlock and "race for base" of the early 1980's were only somewhat relieved when 50-92 and 0-92 became available after 1985. Actual planting flexibility, however, came after 1990, when 0-92 was opened to production of minor oilseeds, and with introduction of the Flex Acres concept. The combined corn-sorghum planting base, with payments tied to production history, has been another key step in encouraging greater crop diversity.

It is important to note that these advancements in opening up planting on program crop base acres are inseparable from another trend in Federal farm policy -- reduced government spending. Policy makers have found that farmers can recover at least part of the benefits lost through budget cuts if they are given greater flexibility to plant crops with better marketplace returns. This has certainly been the case for planting sunflower on wheat and

feed grains base under both NFA and the 0-92 oilseed planting option.

The attractiveness of using planting flexibility options for sunflower has been boosted through increased competitiveness for foreign markets under the Export Enhancement Program and the Sunflower Oil Assistance Program. By offsetting subsidized vegetable oil exports from the European Community and South America, SOAP has been a key factor in making sunflower a profitable crop in the High Plains.

In addition to three existing crushing plants in the Dakota-Minnesota area, a new crushing facility opened in December in Goodland, Kansas. Sunflower prices in both growing regions are near $11.00 per hundredweight, compared to prices at or below the $8.90 national average loan rate a year ago.

Impact of Clinton Plan on Farm Policy

Turning to the impact of the Clinton economic plan on farm policy, Mr. Chairman, I have a strong sense of "deja vu." Several elements of the plan are similar or identical to proposals of the last two administrations. And like those earlier proposals, it appears to focus exclusively on trying to reduce outlays without regard to the resulting effect on policy.

First, the proposed increase in Normal Flex Acreage would continue the trend toward reducing benefits for participating in our voluntary supply management program. Each time benefits are reduced, more producers find it economically preferable to farm outside the program or, in some cases, to not farm at all. The result is to further erode government's ability to influence agricultural production relative to U.S. and world demand.

This role would be diminished even further under the Administration's proposed $100,000 cap on non-farm income. Depending on how non-farm income is defined, not to mention how the cap is enforced, this restriction could force many producers out of the program. It is ironic that the Administration is proposing to punish farm families which have been forced by past benefit cuts to seek income from non-farm sources in order to remain in farming.

Second, the proposed increase in the oilseed loan origination fees would only compound this mistaken and counterproductive policy. The basic purpose of the loan program is to provide a source of low-interest financing, allowing producers to hold their crops off the market after harvest. The effective rates on CCC loans with the current two percent fee are already above commercial levels when held for less than six months. Increasing the up-front fee to 3 1/3 percent would make even nine-month loans non-competitive.

ASCS data indicates that soybean loan activity has been reduced by

one-half since 1990 as a result of the origination fee. Increasing the fee will certainly reduce overall loan activity by at least one-half again. This will cost CCC more in lost fees than the increase will take in. I believe CBO has indicated that the Administration's revenue estimate for these fees, as well as several other initiatives significantly exaggerate actual savings.

Finally, Mr. Chairman, the organizations I represent are deeply disturbed by the proposed elimination of the 0-92 program. This has become the proving ground for planting flexibility. It allows producers to respond to market opportunities and recover income lost due to farm program cuts.

In our view, 0-92 actually reduces Federal outlays by diverting surplus wheat and feed grain acreage to conserving use or non-program crops. This has a positive affect on program crop prices, reducing deficiency payments. Also, participants in 0-92 give up payments on eight percent of base acres.

Details on how the Administration achieves savings by eliminating 0-92 and 50-92 have not been made available. However, the only way possible is by requiring increases in unpaid set-aside acres. At the level of savings projected by OMB, the annual increase in acreage set-asides would be in the following ranges: wheat, 5 to 7.5%; feed grains, 2.5 to 5%; cotton, 2.5%; and rice, 7.5 to 10%.

Thus, in addition to losing an effective tool for planting flexibility and shifting to market-based income, wheat producers in my state of Kansas would face a 5 to 7.5% ARP, with no payment or crop, on top of an increase in unpaid flex acres from 15% to 25%. Unpaid base acres could total 32.5% without regard to the supply and demand situation for wheat.

<u>Impact of Clinton Plan on Agriculture</u>

The effect of the Administration's plan would be to encourage more producers to abandon farm programs to seek higher returns from the marketplace. This would reduce the cost of these programs to the Federal Government, and probably accelerate the consolidation of farmland and assets into fewer operating units. Finally, it would reduce government's ability to influence year-to-year production and prices. As a result, commodity markets and consumer prices could become more volatile.

If we intend to move away from supply management as the central tenet in farm policy, we should do so as a conscious decision and after careful deliberation. While imperfect, this system has given the U.S. the lowest cost food the world has known. Consumers spend only 11 cents of each dollar of disposable income on food--so low they scarcely think about it. Congress and the Administration must consider the consequences if they now choose, either by accident or design, to change the fundamental relationship between government

and farm production.

Finally, I want to add my support to comments by others regarding the major impact of the proposed energy tax on agriculture. The combination of this tax on direct and indirect farm inputs and the proposed cuts in farm programs would create serious problems for producers who are close to breaking even in their farming operations.

In closing, Mr. Chairman, I believe it was beneficial that Congress chose to schedule the farm bill for the third year of each Administration's term. This delay allows all concerned to review proposed policy changes for two years before having to write a new law. Hopefully, we will use this time wisely.

Thank you, Mr. Chairman.

Testimony presented to the

General Farm Commodities
Subcommittee

March 17, 1993

by

Gary Bright
President
National Grain Sorghum Producers

NATIONAL
GRAIN
SORGHUM
PRODUCERS

Testimony presented to
Tim Johnson, Chairman of the
General Farm Commodities Subcommittee
March 17, 1993

Good afternoon Mr. Chairman and members of the subcommittee. My name is Gary Bright, president of the National Grain Sorghum Producers.

On behalf of the National Grain Sorghum Producers, I would like to thank this subcommittee for the opportunity to express our views on President Clinton's Economic Stimulus Package and the way it affects our industry. The President has some tough choices ahead of him.

We feel that everyone will have to share the burden of reducing the deficit, and that includes agriculture. However, subsidies provided to agriculture are minimal in terms of the overall national budget making up 1/6 of 1%. Since 1985, agriculture has shouldered an exorbitantly large percentage of reductions.

There are several aspects of the administration's proposal which will have an adverse impact on agriculture. First, we would like to address the elimination of deficiency payments to producers who have off-farm income greater than $100,000. This will affect many landlord/tenant relationships. Farmers may be forced to cash rent instead of crop sharing, therefore assuming all risk.

Expanding the non-payment acres from 15 to 25% on the "triple base plan" would reduce farm income $1 billion in 1996-98.

This proposal would also eliminate the 0 - 50 and 0 - 92 programs for feed grains after 1995. This would reduce farm income $937 million in 1996-97. These programs are important to farmers since the current farm program lacks flexibility. Adverse weather many times leaves no alternative but to choose one of these programs.

The Federal Crop Insurance program has not been adequate. In assessing the President's reductions in Mandatory/Entitlement Programs, it appears that Federal Crop Insurance will be eliminated. The total budget is not much more than the proposed reductions of $739 million and reforms in operations of $551 million 1995-97.

Another area of concern of grain sorghum producers is the proposed Energy Tax. Agriculture uses more than 1.5 trillion BTU's of energy each year. A BTU tax of 40 cents per million BTU's is equivalent to a five-cent per gallon gas tax. It is estimated that each five cent increase in federal gas tax costs farmers $600 million. Inland waterway tax on barges carrying grain is another expense that will be passed on to farmers.

Ethanol is very important to the sorghum industry and we encourage President Clinton to continue his support of it. We also support the continuation of ethanol research programs to lower ethanol costs through improved production technology and thereby reduce our dependency on foreign oil.

In looking at reductions in non-defense discretionary program, we would support close scrutiny of CSRS earmarked research grants, and CSRS earmarked facilities construction. In addition, a close look should be given to earmarked special extension grants and ARS earmarked facilities construction. It is important that these programs address the priorities of agriculture that will enable farmers to compete effectively on a global market while producing food and fiber.

We question the proposal to reduce development-oriented foreign food aid Title #3 PL480. It is our opinion that this would simply be a shifting of dollars from agriculture to the military. This program not only supplies countries in need of food, but assists them in learning to become self-sufficient. There would be little need for the United States to have troops in Somalia if this country were being taught how to produce grain sorghum which is efficient in water usage and drought tolerant. Sorghum starch serves as an excellent food staple for breads and cereals.

It is no secret that rural America is shrinking in population. Rural economic development has received much lip service over the years. Unfortunately, we have seen little in results.

If the President is truly serious about rural economic development, we hope that he will continue to study his history and recognize that it is time for various industries to expand into the Midwest. Here are two excellent examples.

At one time the primary source of raw materials for paper and corrugate was wheat straw. When we began to settle this country, manufacturing of paper began on the East Coast. As production agriculture moved West, so did the supply of wheat straw, therefore, manufacturers became dependent on timber to supply their raw materials. Research shows that wheat straw and grain sorghum stubble will work as an excellent resource for paper and corrugate production. This provides an excellent opportunity to use a residual by-product.

Another excellent example is the leather industry. Packing facilities were established in the Eastern states. As cattle feeding expanded to the West, so did the packing industry. However, the tanning industry which established itself around large cities and the packing industry in the East, still remains in the East. Today we export 75% of all cattle hides and 90% of all sheep and goat skins. On the Texas High Plains, we feed and process 5 million head of cattle annually. If you were to tan, finish, design and cut leather goods on the High Plains of Texas, we could add greater than $1 billion to the economy, create 10,000 new jobs, not to address the cottage industries that would spin off of this type of rural economic development.

68-362 0 - 93 - 4

We would like to encourage President Clinton's Economic Recovery Plan to include the restoration of investment tax credit. This would provide an incentive for farmers to increase equipment expenditures and this in turn would stimulate the economy.

Health care will be a major legislative topic in the coming year. National Grain Sorghum Producers recommends 100% premium deductions for the self-employed.

We applaud Secretary of Agriculture Espy's pledge to streamline the USDA bureaucracy in Washington. We believe that this a step in the right direction. We want him to find the employee in the basement who gets paid for measuring the flow rate of ketchup.

(Attachments follow:)

The Texas Grain Sorghum Paper and Pulp Project

Patrick L. Odell
Project Director

Baylor University
Waco TX, 76798
(817) 755-3561

Sponsored by:
Baylor University Waco TX,76798

Deaf Smith County Chamber of Commerce, Hereford TX, 79045

Texas Grain Sorghum Board, Abernethy TX, 79311-0560

Texas Department of Agriculture, Austin, TX,78711

XXX

(MR. BRIANT)

Protect The Environment

- SAVE THE TREES! Use grain sorghum residue to make paper products
- Less pollution created in making paper pulp from crop residue!
- Less Chemicals to make paper pulp from crop residue!

XXX

Texas Grain Sorghum Paper And Pulp Project

The paper used for this brochure is made from Texas Grain Sorghum Crop Residue

THE TEXAS GRAIN SORGHUM PAPER/PULP PROJECT

- Over 4 million tons of Grain Sorghum Crop Residue is grown annually in Texas.

- Grain Sorghum stalks have been used to make commercial grades of paper including
  - unbleached packaging papers for sacks and wrapping
  - unbleached paper for corrugated medium and liner board
  - Stationery quality paper

- 4 million tons of crop residue can be worth 160 million dollars at forty dollars a ton to the producer, (each year!).

- 4 million tons of crop residue can make 2 million tons of paper, (each year!).

- Twenty-eight two hundred tons per day paper mills can make 2 million tons of paper,(each year!).

- Texas Grain Sorghum Paper/Pulp Project aims to make marketable paper and chemical products from grain sorghum residues.

What is the future?

- A pulp and paper mill near Hereford, TX!
- A pulp and paper mill near Abernethy, TX!
- A pulp and paper mill near Corpus Christi, TX!
- A pulp and paper mill in other Texas counties!
- Pulp and paper mills in Nebraska!
- Pulp and paper mills in Kansas!
- A furfural chemical plant in West or South Texas!

National Corn
Growers Association
Washington Office
201 Massachusetts Ave., N.E., Suite
Washington, D.C. 20002
202/546-7611

TESTIMONY OF

ROD GANGWISH

NATIONAL CORN GROWERS ASSOCIATION

TO THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES

U.S. HOUSE OF REPRESENTATIVES

MARCH 17, 1993

Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the views of the National Corn Growers Association (NCGA). I am Rod Gangwish, chairman of the Government Relations Committee of the NCGA. We raise corn, soybeans, and alfalfa and operate a feedlot on our farm near Shelton, Nebraska.

I want to commend you for holding this timely hearing. Our organization is concerned that the opportunities in agriculture, particularly profitable corn production, are becoming increasingly limited. Current price and production cost estimates for the rest of this century show relatively flat returns per acre for corn farmers. The economic package proposed by President Clinton would further narrow the margins for U.S. corn farmers: energy taxes will increase the cost of production, while cuts in farm programs will reduce income. Unless prices improve dramatically, and the weather cooperates, there will be no economic recovery in the corn sector.

Unfortunately, Congress cannot legislate ideal weather, but Congress can act to improve farm prices. The national average price of corn for the first five months of the 1992 crop year was $2.02 per bushel. USDA has projected an average price of $2.03 for the 1993 crop. These prices are too low to keep many farmers in business.

Deficiency payments offer an important level of income protection, but as a national average, one-fourth of participants' corn production is not eligible for deficiency payments. This limited deficiency coverage is the result of program payment yields that are well below actual yields and "triple base," or "normal flex acres" that are not eligible for deficiency payments. The decisions made back in 1990 to

limit program benefits were intended primarily to meet federal budget targets, but the implicit promise made to agriculture was that aggressive U.S. trade efforts would assure reasonable market returns. Subsequent policy has not provided producers with a realistic price for corn.

The federal government has an important role to play in supporting agricultural markets, and we ask for this subcommittee's support to address those market concerns.

First, the loan rate for corn must be raised to the basic loan level. Reductions from the "minimum" loan level for competitive purposes have eliminated the price support function and replaced it with an inadequate financing tool. Consequently, too much corn is moving into the market at harvest and is further depressing already-low grain prices.

The basic loan level is only 85% of the simple average market price during the preceding five years, excluding the high and low years. Thus the basic loan rate is necessarily 15% lower than the average price received by farmers. And when adjusted for inflation, the rate is even lower. Every year since 1985 the "minimum loan and purchase level" has been cut further by reductions intended to assure export market share and maintain a competitive market position. The GATT triggers contained in the Omnibus Budget Reconciliation Act of 1990 require a marketing loan for 1993 through 1995 crops of wheat and feed grains. Competitive adjustments should not be necessary with a marketing loan.

A carefully implemented marketing loan will achieve the competitive market prices that adjusted loan rates are intended to achieve. Producers will benefit from a higher level of support at the time the crop is placed under loan, and if prices fall below the basic loan rate, the marketing loan will provide income support for all program production placed under loan.

The obvious disadvantage is the potential budget exposure with marketing loans at the basic loan rate. We want to work with you to minimize the budget exposure by implementing policies to keep corn prices above the basic loan rate.

We need farm policies that expand domestic and export demand at prices that offer a realistic level of return for U.S. producers. Domestically, this means maintaining and expanding livestock markets, assuring a role for ethanol in the oxygenated fuels programs included in the Clean Air Act Amendments of 1990, and developing new industrial and food uses for corn.

To expand exports, corn farmers need a fair trade agreement via the GATT that will end the dumping of excess

European Community grain onto the world market.

We need to recognize and develop the potential feed grain and meat markets in Mexico through the North American Free Trade Agreement. We have tremendous opportunities in South America and in the Pacific Rim where meat consumption and industrial products from corn can expand dramatically.

Congress must reconsider the current impediments to operation of the credit guarantee programs to address the special credit needs of Russia, Ukraine, and the other republics of the former Soviet Union.

President Clinton's economic package includes user fees on inland waterways and on federal grain inspection services both of which will add to the cost of our exports which will affect our competitiveness. NCGA urges you to carefully consider the total impact of such fees and the tremendous importance of grain exports to the nation's economy.

In addition to strong markets, farmers need the tools to manage the weather risk inherent to agriculture. For the producer with ten years of records the Federal Crop Insurance program offers an effective risk management tool. NCGA supports efforts to enable producers to establish their actual production history with four years of records. Crop insurance based on the producer's individual experience provides much greater assurance for purposes of loan collateral and marketing strategies than would be available with a group risk approach.

President Clinton has called for user fees on commodity exchanges. Again this is another example of increased costs to producers that may have the unintended effect of discouraging producers from using an important marketing tool.

We recognize and applaud the efforts to reduce the federal budget deficit. We realize that agriculture will have to contribute to the national belt tightening. But agriculture took more than our share of cuts in 1990 and should not be expected to contribute more than our fair share of cuts in this round of budget reconciliation.

Profitability in agriculture is essential to economic recovery in this country. Profitability for farmers will enable us to support our families, help our communities prosper, and contribute to deficit reduction through the payment of income taxes.

Thank you for considering our input. All of us at NCGA look forward to working with you in the coming years to develop policies that will ensure the long-term success of the our nation's great corn industry.

**Statement
of
Gerald Lacey
Vice President
National Barley Growers Association**

Mr. Chairman, Members of the Committee, I am Gerald Lacey, a barley grower in the Red River Valley near Campbell, Minnesota. I am currently President of the Minnesota Barley Growers Association and Vice President of the National Barley Growers Association (NBGA). NBGA is a grower membership organization including barley producers from Minnesota, North Dakota, Montana, Oregon, Washington and Idaho. This block of six states annually produces 80 to 85% of the total U.S. barley crop.

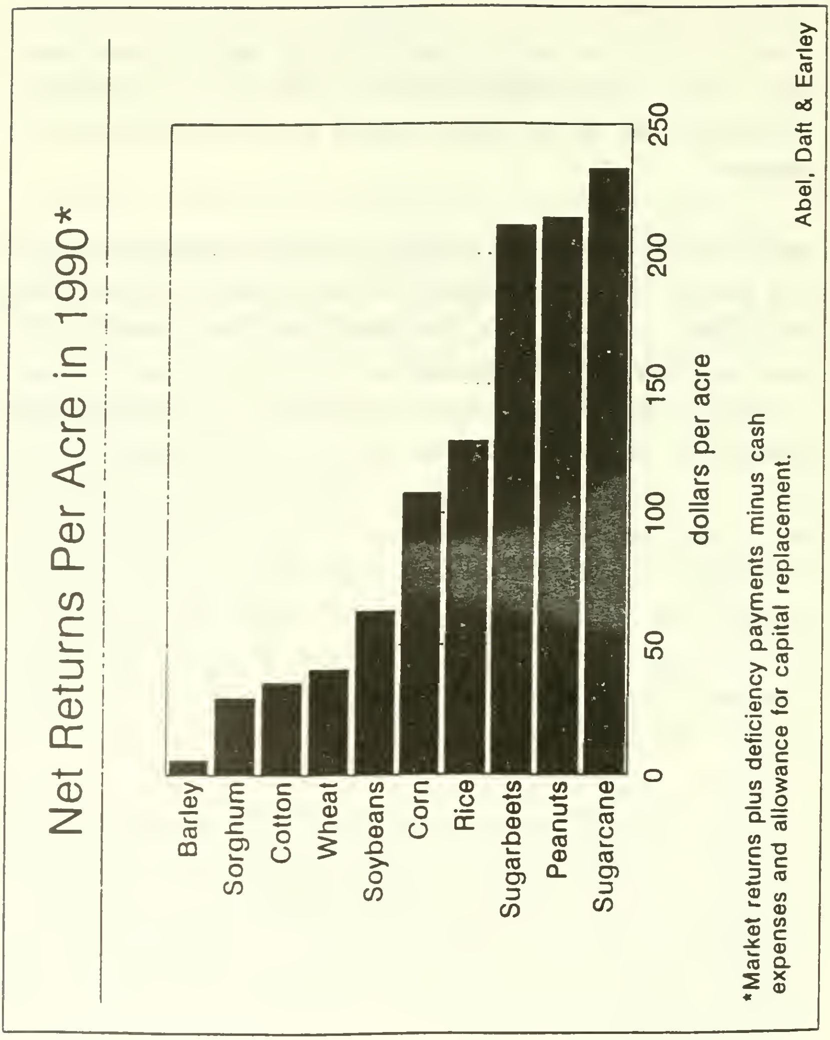
Barley growers, along with the rest of U.S. production agriculture, realize that it is imperative that a combination of cuts in government spending and an increase in taxes and other means of enhancing revenue is vitally necessary. The slide toward U.S. insolvency must be reversed.

However, to agree philosophically with the macro concept of coping with the immense national debt is the easy part. The difficulty comes in devising a program of initiatives that will be perceived as fair treatment for all. At this point, barley growers become as parochial and focused on survival as all other categories of taxpayers. Naturally, we believe that barley can make a convincing argument that our producers may be unduly vulnerable to the array of proposals which are emerging as the various budget committees and administrative planners work at their difficult assignments. Actually, many of the points that we emphasize are appropriate to the other commodities as well.

Barley's problem is that it is starting this period at such a low station on the Net Returns Per Acre chart (see following page) that even a modest income reduction will put the commercial barley producer in the same category as the carrier pigeon - extinct!!

One of the most disturbing proposals for grain producers (including barley) is the combination of energy taxes and user fees which would severely impact grain marketing costs. BTU taxes on fuels and user fees on waterways and ports are ostensibly levied against the carriers and facilities, but it is no secret that those costs are passed back up the line to the farmer who, of course, is at the end of the line with no one to receive his pass. Such additional fees and taxes would simply be piled atop the already top-heavy production costs derived from activities ranging from grain inspection fees to pesticide registration costs. Many farmers consider this ever increasing regulatory cost escalation as a greater threat to their viability than that posed by inclement weather.

A decrease in payment acres would seem to be an untimely strategy which could further complicate the already discouraging GATT negotiations. The U.S. has had the past experience of unilaterally making production adjustments which have cost export market share and have disadvantaged us in our long competition with the European Community.



Net Returns Per Acre in 1990*
Barley
Sorghum
Cotton
Wheat
Soybeans
Corn
Rice
Sugarbeets
Peanuts
Sugarcane
0
50
100
150
200
250
dollars per acre
*Market returns plus deficiency payments minus cash expenses and allowance for capital replacement.
Abel, Daft & Earley

There have even been suggestions to reduce or even eliminate the Export Enhancement Program. That would seem to be the ultimate folly if we have any hope of maintaining a competitive stance in the world market. We would be rapidly shouldered aside by the predatory pricing practices of the E.C.'s restitution program and the single-desk marketing arms of our other grain exporting competitors. The same is true for proposed cuts in the important GSM credit programs which have been equally vital to the U.S. commodity exports.

Those are the specific budget proposals that we would single out as particularly threatening. However, we would also mention a cost scored against the USDA budget which we have never been comfortable with. I refer to the considerable freight differential costs that accrue to Agriculture when required to use U.S. flag while shipping under the terms of the Cargo Preference rules. Since those charges are, in essence, a subsidy to the merchant marine, we do not feel that it is fair that in this period of intense fiscal austerity, the USDA budget should be burdened with those outlays. At the very least, the line item should be subjected to the same vigorous attention that is being given to the commodity features.

Given this opportunity to appear before this Committee, the NBGA also wishes to raise an issue which, while not in the strict context of this hearing, is becoming quite serious and has the potential to have a significant impact on the cost of our commodity programs. We would like to call your attention to the influx

of Canadian grain which is flowing unencumbered into the U.S. market. The volume of Canadian barley that was exported into the U.S. during the 1991-1992 marketing year rose from slightly over 230,000 tons in 1990-1991 to approximately 527,000 tons. That trend line is cause for apprehension, especially when we have quotes from Canadian officials which target the U.S. market for 1½ million tons in the near future.

Considering that around 10 million tons is an average production year for barley in the U.S., an influx of 1½ million tons would be a 15% increase in U.S. barley supply. It is a thin market for barley in this country. This last year, every upward movement in the cash price in key feed markets has been met by a surge of Canadian grain. As a result, the market has been very flat and the inevitable effect will be higher (budget impacting) deficiency payments. Complicating the competitive price situation which draws barley south is the troublesome U.S. malting barley assessment.

Because of the assessment, a significant amount of barley which is actually of malting quality is being sold as feed, especially in the Midwest. This is due to the fact that the spread between the prices for malting barley and feed barley respectively is often less than the projected assessment is estimated to be. Thus, a farmer (even though his production meets the quality standards acceptable by the malting houses) often opts for the somewhat lower feed price because he hesitates to cope with the

uncertainty of the assessment level which may or may not exceed the spread, depending on the vagaries of the marketing year.

This obviously tends to skew the normal market for both malting and feed barley. One of the most serious consequences of this unusual pattern is the competitive advantage that it offers Canadian barley producers who sell into the domestic U.S. market. With the assessment discouraging U.S. farmers from selling their grain for malting purposes, the U.S. malt houses are increasingly finding it cheaper and easier to seek their barley supplies from Canadian sources.

If the 1½ million tons Canadian target is reached, it will be coming close to equaling the target of around 2 million tons aspired to as a goal for U.S. barley exports. The implication is, of course, that the imports are negatively influencing the goals of our price support programs and export enhancement programs. Perhaps the most troubling aspect of the presence of large quantities of imported Canadian barley adrift in the United States is the worry that some part of it may inadvertently find its way into the U.S. barley exports that are made with the assistance of the EEP. Or, more likely still, they could be transshipped into Mexico as U.S. barley to be scored against the 120,000 ton tariff free quota authorized by the suggested NAFTA language.

As a means of determining what specific use is being made of the imported barley and what markets it is impacting, we are asking

Congress to pass an end-use certificate which would help to trace the shipments to their ultimate destination. If, by correlating these grain movements to price trends, we are able to confirm our contention that the practice disrupts the intent of our domestic and export programs, we may be justified in seeking remedial action.

NBGA thanks the Committee for the opportunity to air our views on the economic situation in our industry and the budget proposals being suggested. We reiterate our willingness to undertake our fair share of the fiscal burdens facing our country today.

REVISED COPY

National Grain and Feed Association

TESTIMONY BY

J. STEPHEN LUCAS

BEFORE THE SUBCOMMITTEE ON

GENERAL FARM COMMODITIES

OF THE COMMITTEE ON AGRICULTURE

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 17, 1993

Mr. Chairman and members of the committee:

First, I want to express my thanks to the committee for inviting the National Grain and Feed Association to testify on an issue of vital importance to the agricultural sector of the economy. The National Grain and Feed Association is particularly concerned about the impacts of the increases in user fees contained in the proposed deficit reduction and economic stimulus package being considered by Congress.

1201 New York Avenue, N.W., Suite 830 • Washington, D.C., 20005 • (202) 289-0873

I am Steve Lucas, Director of Logistics and Operations for Louis Dreyfus Corporation of Wilton, Connecticut. I am a member of the Inland Waterway Users Board, a federal advisory committee which is charged with recommending priorities of navigation projects to the President and the Congress. Also, I am the chairman of the Waterborne Commerce Committee of the National Grain and Feed Association.

The National Grain and Feed Association (NGFA) is the national nonprofit trade association of 1,200 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. The NGFA also consists of forty affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide. NGFA is the nations largest agribusiness organization.

PROPOSED 525% INCREASE IN INLAND WATERWAYS FUEL TAX

I am appearing before you today to urge you to oppose the proposed $1 per gallon tax increase on diesel fuel used by commercial towing companies on the

inland waterways.

NGFA's and my company's opposition to this five-fold tax increase is based on the following five reasons:

First, the $1 per gallon tax increase would lead to significantly decreased farm income. In 1991, sixty-five percent of all U.S. grain exports, a total of sixty-three million tons with a total value of $10 - 15 billion, moved on the inland waterways. The price of these grains and oilseeds is determined by worldwide supply and demand in a global marketplace where U.S. farmers must compete with the production of farmers in Europe, South America, and the far East. It is very unlikely that this proposed increase in transportation costs[1] could be passed on to foreign buyers who have a large choice of alternative suppliers.

Additionally, merchandising margins in the grain and feed industry are

---

[1] "Transportation is a key element in the marketing system of bulk agricultural commodities. ... Since most grain shipped by barge is destined for an export point, **the cost of barge transportation is a key issue in the total cost of marketing export grain. This cost is especially important with the increased competition from several grain exporting countries.** Increased operating costs for barge operators may be reflected in higher transportation rates and reduced bids to producers by river elevators [emphasis added]." Patricia Miller & Lowell D. Hill, ORGANIZATION AND STRUCTURE OF THE BARGE INDUSTRY TRANSPORTING GRAIN AND OILSEEDS, Department of Agricultural Economics, Agricultural Experiment Station, College of Agriculture, University of Illinois at Urbana-Champaign (May 1986).

extremely thin as are the operating margins of most barge carriers. A tax increase of this magnitude is larger than the combined margins of both the export grain and barge industries. Thus, it is inconceivable that this increase could be absorbed by these industries.

The only segment of the industry remaining to absorb this tax increase is the producer himself. A 1985 study by the Department of Agriculture[2] showed that fully seventy percent of a five cent per bushel fuel tax would be borne by the U.S. farmer. With another $1 per gallon in taxes, I believe that this percentage will increase to the 85 to 95 percent level. The National Grain and Feed Association estimates that this tax will cause declines in annual farm income of up to $431 million per year, just in those states which are directly adjacent to the waterways.

Second, the $1 per gallon tax increase is applied unfairly to only one segment of inland waterway users. Barge navigation is only one of many beneficiaries of inland river operations. Many programs are undertaken for a variety of public purposes, i.e. flood reduction, hydropower, water supply, and

---

[2] Theresa Sun & Lester Myers, A WATERWAY TAX ON GRAINS: A FUNCTIONAL MARKET ANALYSIS, United States Department of Agriculture, Economic Research Service, Technical Bulletin Number 1705 (July 1985).

bank stabilization. In the absence of all commercial navigation, costs for these other purposes would continue, but the commercial navigation interests are now being asked to pay for all of these costs. By way of analogy, this would be akin to asking the commercial trucking industry to pay for all of the operations and maintenance of the interstate highway system.

Third, the projected revenues derived from the $1 per gallon tax are based on faulty economic theory. The present proposal estimates revenues in 1997 from this tax to be $460 million. However, this estimate is based on traffic volume remaining constant or even increasing slightly in the face of a five-fold increase in operating costs.

As farm income decreases due to this tax and the cost of production increases due to higher transportation costs of inputs such as fertilizer, overall farm production and U.S. exports will decline. In fact, the USDA study quoted earlier estimated that a five cent per bushel tax would cause a decrease in U.S. grain exports of 365,000 tons. With the $1 per gallon increase, exports could fall more than twice that amount. Thus, as the volume of export grain declines, the revenues from this tax would also decline to levels far below the projected $460

million.

In addition, there is good reason to believe the true net revenue increase that would be realized by government has been vastly overstated. Given the proximity of the corn belt region to the river system, we would expect midwestern corn prices to be depressed in a range of four to eight cents per bushel, depending on location. If we assume an average decline of five cents per bushel, revenue gains from this tax would be offset by increased federal deficiency payments under current government farm programs.

Based upon USDA's own Final Regulatory Impact Analysis, November 16, 1992, a five cent per bushel decline in corn price would cause additional government costs in a range of $300 to $500 million. This impact is for corn and feed grains alone. The added program cost to the federal government due to lower wheat and soybean prices would be in addition to this cost. Thus, even with conservative assumptions about the farm price impact of the tax, we believe a more careful assessment of the full impacts of this tax would demonstrate that the federal government would actually lose revenue rather than gain it with this proposal.

Fourth, the $1 per gallon tax increase will divert traffic from the inland waterways to other modes of transportation with significant environmental impacts. Barge transportation on the inland waterways is the most environmentally friendly mode, using less fuel per ton-mile, creating less air and noise pollution and having a superior safety record for the movement of petroleum and hazardous chemicals.

In a study conducted by the Minnesota Department of Transportation, it was found that if waterway traffic in Minnesota, one of the states most affected by this tax, was shifted to rail, fuel use would increase by 331 percent, emissions would increase by 470 percent, and probable accidents would increase by 290 percent. For a shift from barge to truck, the increases would be 826 percent, 709 percent, and 5,967 percent, respectively. Thus, by driving cargo to other less environmentally friendly modes of transportation, this tax poses significant environmental risks for all Americans, not just those concerned with commercial navigation on the inland waterways.

Fifth, as a final point, we are extremely concerned about how such a heavy tax will affect U.S. cost competitiveness with our major competitors. The attached table reports data from a recent Purdue University study that indicates the U.S. has

four major competitors in corn production whose average cost of production is $3 per ton less than U.S. However, the high level of efficiency in the U.S. marketing system gives the U.S. farmer a $9 per ton advantage in delivering corn to world customers. Looking at total delivered cost, the U.S. farmer has a slight advantage of $6 per ton over major competitors. This heavy taxation of waterways, would effectively add about $3 per ton to the delivered price. Thus, with this one action, the U.S. government would be eroding 50 percent of our competitive advantage that we currently have in the production and delivery of corn to world markets. Most experts agree that the U.S. has its greatest comparative advantage in the production and marketing of corn, with even stiffer world competition in the production and delivery of soybeans and other grains, so the percentage loss in our competitive position for other sectors would be even greater. If agriculture is to be given a legitimate opportunity to grow and expand its share of world markets, we must protect our natural competitive advantages and efficiencies in the transportation infrastructure.

However, the grain and feed industry also recognizes the need for all Americans to share in the process of reducing the federal deficit. To that end we would like to make the following suggestions in order to reduce spending and/or

increase revenues from the inland waterway sector:

First, the Congress should look to implement a meaningful reorganization of the Corps of Engineers structure. The Corps itself has already put forth a plan to reorganize which would lower its overhead by an estimated $115 million per year. Although this plan has been put on hold pending further review, we believe that even further savings could be found by efficient reorganization of the Corps of Engineers manpower and resources.

Second, along with any reduction in the overhead of the Corps of Engineers, the Congress must look to reduce Corps of Engineers spending on navigation operation and maintenance. Through careful review of projects and procedures, it would be possible to reduce the Corps operation and maintenance spending by $35 - 40 million per year.

Third, spreading the tax burden of operating and maintaining the inland waterways to other beneficiaries of the system would bring in additional revenue. It would seem more than equitable that users of the inland waterways other than the commercial towing industry should also contribute to the maintenance and

operation of a system which provides many recreational, hydropower and water supply programs. Such revenue increases, while small individually, could easily total to $50 million per year.

Thus, by focusing on the three areas outlined above the Congress could easily meet the $200 million a year goal contained in "A Vision For Change" without completely crippling the agricultural sector of our economy which is so vital to our country's balance of payments and continued economic growth.

FEDERAL GRAIN INSPECTION SERVICE FEES

Mr. Chairman, the NGFA is extremely concerned about the President's proposal for new user fees to finance the operation of the Federal Grain Inspection Service. Specifically, the proposal -- identical to the one proposed previously by Presidents Reagan and Bush, but rejected by Congress -- would shift approximately $6.8 million per year in standardization costs to user fees, which could increase FGIS user fees by as much as 25 percent. Currently, industry user fees already pay the entire cost of official inspection and weighing, and account for approximately 76 percent of the FGIS budget. The use of the official system is

mandatory for export shipments and is also offered by FGIS designated official agencies as an option at interior markets.

Standardization activities involve establishing and maintaining the official U.S. grain standards, developing and implementing standard methods and procedures for grading and weighing grain, maintaining a quality control program covering all aspects of inspection, and approving equipment used for official inspection and weighing. In addition to benefiting all participants in U.S. agriculture, these activities guarantee foreign customers that the U.S. system of grain grades and weights is reviewed and overseen by an independent entity administered and funded solely by the U.S. government.

Domestic utilization of official FGIS services is at an all time low. The use of FGIS services is declining and its financial resources low because fees are not priced competitively with other domestic grading services offering comparable quality. A further move by government to force additional costs on the relatively smaller number of remaining users of FGIS services will only exacerbate this problem and cause additional erosion in the FGIS customer base.

Furthermore, the proposal to have standardization paid for by user fees is fundamentally flawed. There are many "users" of the official standardization system, including farmers, country elevators, terminal elevators, and processors. Many of these "users" rely on the unofficial grades which are nevertheless based upon official grades set by FGIS in its standardization activities. All of these "users" benefit from standardization activities. However, we believe that shifting the cost of FGIS standardization activities to industry paid user fees will cause a further erosion of companies using the official system and cause even more of the financial burden to be borne by a small segment of those who benefit. This spiraling process of increased fees causes a reduction in the FGIS customer base and the need to further increase future fees. The end result will be a disproportionate share of the costs of FGIS standardization activities being borne by exporters who are required by law to use the official system.

Thank you again, Mr. Chairman. I would be glad to respond to any questions.

(Attachment follows:)

Production and Marketing Costs for Corn: U.S. and Major Competitors*

	Average Cost of Four Major Competitors**	Average Cost U.S.A.
Variable Production Cost	$56 per ton	$59 per ton
Average Marketing Cost	$34 per ton	$25 per ton
Total Delivered Cost	$90 per ton	$84 per ton

*Data are from : Indiana Agriculture 2000: A Strategic Perspective, Purdue University,
June 1992. Data are based upon 1986 estimates, presumed to the most recent comparative data available on international competitiveness.

**Competitor countries include: Argentina, Brazil, S. Africa, and Thailand.

American Corn Growers Association

P.O. Box 18157
Washington, D.C. 20036
(202) 835-0330

218 E. Bedford
Dimmitt, Texas 79027
1-800-666-8506 or
(806) 647-4224

I am David Senter and I am here today representing the American Corn Growers Association. The American Corn Growers Association truly appreciates the opportunity to testify before the Subcommittee on General Farm Commodities concerning President Clinton's proposed deficit reduction and economic stimulus package.

As a preamble to our testimony, let me say that the main thing wrong with agriculture is the cheap prices that we receive for our products. Until we get a price then all of these other things that we are are talking about such as raising taxes, the environmental problems and so forth are not going to be carried out because the farmers do not have the money to do so. Every year since 1980, the crisis in agriculture has increased because as a nation we have failed to earn the income into circulation from production, we have been forced to resort to borrowed money to buy the production of goods and services from one another. We have already lost over 1/2 million farmers since 1980 from the farm and it continues.

Unemployment today is a direct result of improper pricing of our annual production. Agriculture is the foundation of the economy of the nation. When agriculture goes broke, so does the nation and that is what has happened to our country. It is also one reason that we are going towards being a third world nation. We welcome the opportunity to address you here today.

What farm policies are most important? PRICES

How can President Clinton's proposed economic package which includes an energy tax, higher user fees, and changes in the farm program and rural development projects change the present economic outlook for farm income? Income tax would hurt us the least. The proposed excise taxes will hurt us drastically on natural gas and ethanol. Ethanol is one of the alternate fuels that is in the Clean Air Act that was mandated by Congress over a year ago. Any financing of new ethanol plants should require at least a 5 year pay out. The Federal Government has worked so hard to encourage ethanol and it would be counterproductive to tax it now. Future ethanol plants that are on the planning board to be built may be stopped if ethanol is taxed. Texas, Oklahoma, Kansas, Nebraska and other states pump their water out of the ground with natural gas powered motors since they have a semi-arid climatic condition. We are not like the other areas that have subsidized power units. Farmers furnish and finance the power units without subsidization. In this regard, taxing natural gas would be a catastrophe in itself. We are as competitive with other parts of the country as we can be and this would just add more to our costs of production.

There have been rumors that Estate Tax Exemptions would be moved from $600,000 to $200,000. This would be disastrous to the American farmer. The American Corn Growers Association strongly opposes any reduction in the Federal Estate Tax Exemption.

Mr. Chairman, we recognize that budget restraints are in order. Ever since we formed the American Corn Growers Association in 1987, we have been trying to persuade Congress and the administration to raise the loan with a supply management concept. These two items would help the most and be the quickest relief that we could get on a short term basis. Raising the loan level to the cost of production plus 10% and a diversion of crop acres when the carryover of corn reaches 20% of total feed, seed and industrial use, would be the first thing that we would recommend.

If you want to give the farmer an option, a target program could be implemented by giving corn producers a choice of a zero set aside with a $2.00 target price and $1.50 recourse loan.

They can give a 10% set aside with a $2.75 target price and $2.25 non-recourse loan.

A 20% set aside with a $3.25 target price and a $2.75 nonrecourse loan.

This will allow producers to respond to market signals and remove the pressure from the Secretary to regulate supply. We suggest that no farm unit be paid deficiency payments for more than 50% of the tillable base for that farm. This would save millions of dollars while helping to equalize government expenditures per farm unit. We urge the Secretary to think about our export policy and change it to one that emphasizes profitable export services instead of trying to recapture world markets. The current program that we operated under in the 80's will eventually bankrupt us all.

Because of extreme price pressure on corn due to the large 1992 crop, we urge the Secretary to open a reserve for immediate entry and raise the loan the amount of the maximum allowed instead of the minimum required as announced by former Secretary Madigan. We would also recommend that this reserve be switched to a producer controlled disaster reserve to be used to replace disaster payments during short crop years. This would eliminate the need for disaster legislation each time that a short crop appears. It would also help relieve the federal crop insurance program of some of the inadequacies that are associated with this program.

I would like to make one more statement concerning price. A major goal of the American Corn Growers Association is to improve prices for the crop that its members grow. We do not support increased production and yields rather than higher prices just to get more corn on the market. This is one of the things that failed us in the 1980's and as a result, the American farmers suffered on prices that are lower than the cost of production. We want to work with the Clinton Administration on a new farm program that decreases government budget exposure and allows farmers to operate at a profit. We feel that by adopting a supply management concept and raising the loan level so that we can get our money out of the market, it will be one of the most cost saving programs that can be adopted. By implementing higher loan rates and supply management, we can achieve a sane farm program while at the same time helping to achieve the Clinton Administration budget goals. We have tried to get this concept adopted for years, and one of the biggest complaints we have

is that it will affect our exports. We say that it is <u>not</u> so, we feel that it is a fallacy that has been psychologically implanted upon peoples minds in Congress and the administration because the records prove that we were exporting more under a higher loan than we are now under a lower loan. We support policies that increase consumption of agriculture base products. Hopefully, this will restrain some carryover of stocks. The loan level that we are referring to must include land and management costs. It must not be less than the '85 target price or the cost of production as it is now. It should be computed by the National Land Grant University System. Some of these are just suggestions that we would like for your committee to consider for the long term 1990 Farm Bill that is coming up for debate.

I am enclosing the ACGA's position paper entitled "Profitability for the American Corn Farmer in Rural America." It was adopted on January 5, 1992. We will be meeting with the ACGA board members so there may be some changes but mainly due to the tax situation that the present administration wants to adopt, we may have to make some substitutions in our policy paper. We compliment President Clinton on his attempt to balance the budget and we know that it is not going to be easy. Unfortunately, farmers have taken the biggest cut and again it looks like they are going to do the same unless we replace this by raising the loan and having a supply management concept.

Thank you for allowing us the time to present our views.

(Attachment follows:)

GRAIN BIDS AT CORKY JONES ELEVATOR
ELECTION DAY 1980 VS 1992

	1980	1992	Price Drop	1992 % Price Change
Soybeans	$8.39	$5.02	$-3.37	-40%
Corn	$3.31	$1.85	$-1.46	-44%
Wheat	$4.48	$3.27	$-1.21	-27%
Milo	$5.34	$3.15	$-2.19	-41%
W Corn	$5.95	$2.58	$-3.37	-57%

LIST OF JOHN DEERE EQUIPMENT
OF
LIKE DESIGN AND HORSE POWER

	1980	1993	Change	% Change
7720 Combine	$65,815	$114,003	$+48,188	+73%
6 Row Corn Head	$12,572	$ 21,583	$+ 9,011	+72%
16FT Grain Platform	$ 6,476	$ 12,274	$+ 5,798	+90%
6 Row Planter	$10,037	$ 16,631	$+ 6,594	+66%
4440 130 H.P. Tractor	$ 35,665	$ 62,572	$+26,907	+75%

	Jan 90	Jan 93	Change	% Change
Gasoline	.90	$1.17	+.27	+30%
Diesel	.60	.80	+.20	+34%

BASE PRICE NO OPTIONS

	1980	1993	Change	% Change
FORD 1/2 TON 2X4 F-150 PICK-UP	$5,982	$10,656	$+4,674	+78%

200 ACRE UNIMPROVED NONIRRIGATED FARM REAL ESTATE TAX

	1980	1992	Change	% Change
	$1,308	$2,188	$ +880	+67%

National Grain and Feed Association

April 9, 1993

The Honorable Tim Johnson
Chairman, Subcommittee on
General Farm Commodities
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Bill Emerson
Ranking Member, Subcommittee on
General Farm Commodities
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Dear Congressman Emerson:

The National Grain and Feed Association (NGFA) commends you for holding hearings on the effects of the Clinton Administration's budget proposals on various agricultural sectors. The NGFA believes that budget pressures on agriculture will continue and that all options must be examined to maintain needed federal budget support. The NGFA respectfully requests that this letter and the enclosed white paper, ***"U.S. Agriculture 2020: An Economic Growth Plan for U.S. Agriculture,"*** be included in the hearing record of March 23, 1993.

The NGFA is the national nonprofit trade association of more than 1,000 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. Founded in 1896, the NGFA's members include country, terminal, and export elevators; feed mills; cash grain and feed merchandisers; commodity futures brokers and commission merchants; processors; millers; and allied industries. The NGFA also consists of 40 affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide.

In the highly pressurized atmosphere of budget reconciliation, we are concerned that certain actions could be taken with regard to agricultural policy that could threaten both the near and long-term competitiveness of U.S. agriculture. In particular, we are very concerned about recent reports that higher loan rates could be considered. While there are some who believe that loan rates can be raised with minimal adverse consequences, the NGFA has grave reservations about such changes.

Under the traditional nonrecourse loan program, higher loan rates threaten to make U.S. crops uncompetitive in the world marketplace and raise the specter of increased crop forfeitures to the U.S. Government, thereby isolating U.S. supplies from the marketplace. Under the new marketing loan provisions, higher loan rates increase the likelihood that marketing loan provisions will be triggered, leading to massive additional budget exposure. In either case,

1201 New York Avenue, N.W., Suite 830 Washington, D.C.

The Honorable Tim Johnson
The Honorable Bill Emerson
April 9, 1993
Page 2

increased spending will lend credence to those who would idle increasingly greater amounts of productive U.S. farmland to offset higher spending on other programs. These two policies provide nothing but comfort to our competitors, loan rates because they provide a hard price floor and a climate of stability for foreign investment in agriculture, and acreage reduction programs (ARPs) because they limit U.S. supplies available to the world market and neutralize our comparative advantage in agriculture. The enclosed paper demonstrates that ARPs effectively work as a policy of exporting productive U.S. farm acres rather than exporting commodities.

U.S. Agriculture 2020, was written last year, but we believe it still provides valuable insights into the competitive position of the United States. It clearly demonstrates that U.S. exports and market share have declined over the last decade due to flawed policy choices, including high loan rates and increased acreage idling. The NGFA advocates a positive approach in partnership with production agriculture in which farm income will rise, jobs will be created and services maintained in rural communities, and U.S. competitiveness in the global marketplace will create new markets for our products.

As the budget reconciliation process proceeds, the NGFA enthusiastically looks forward to working with you and the subcommittee to craft solutions to our budget problems that will benefit all of U.S. agriculture.

Sincerely,

Kendell Keith

Kendell W. Keith
President

(Attachment follows:)

U.S. AGRICULTURE 2020

An Economic Growth Plan for U.S. Agriculture

By the National Grain and Feed Association

JULY 1, 1992

U.S. AGRICULTURE 2020

AN ECONOMIC GROWTH PLAN FOR U.S. AGRICULTURE

BY THE NATIONAL GRAIN AND FEED ASSOCIATION

(Editor's Note: During the past decade, U.S. agricultural policy has been through several transitions. The 1981 Farm Act, written near the end of a major expansion phase for U.S. agriculture, established high loan rates that inhibited U.S. competitiveness. The 1985 Farm Act initiated some market-oriented reforms in agricultural policy, with renewed emphasis on world competitiveness. The 1990 Farm Act largely continued some of the programs conceived in 1985. But other facets of this most recent legislation, coupled with budget cuts, have led to troubling economic times for many agricultural sectors.

This paper discusses the role of agriculture in the general economy's recovery from recession. It suggests that policies designed to support farm income have had an unintended, harmful side-effect on other agricultural sectors. It seeks to propose sound, long-term economic growth policies for all sectors of U.S. agriculture. And it calls on U.S. policymakers to discard outmoded concepts that do not work, and take a new, visionary approach to chart a course for revitalization. Hence its title, "U.S. Agriculture 2020".)

I. INTRODUCTION

The U.S. economy is struggling to recover from a recession, and business and government are mobilizing to formulate economic policies to promote U.S. economic vigor and international competitiveness.

How is it, then, that U.S. agriculture is often ignored in developing strategies for national economic growth? The U.S. agriculture sector -- including 2 million farmers and 19 million workers in allied agribusiness industries -- constitutes 15 percent of U.S. gross domestic product and 17 percent of U.S. employment (Exhibit 1). With the right policy choices, this vital segment could contribute powerfully toward national economic growth and employment.

EXHIBIT 1

Searching now for policies that permit or encourage agricultural growth is especially important given federal budget cutbacks. With a spiraling federal budget deficit, direct government payment support for agriculture is on the wane, and the budget agreement of 1990 constrains policymakers from making significant changes in federal spending. Rather than serving as a tool for managing government spending, budget targets now drive policy debates. This has been especially true for agriculture in recent years; expenditures have been halved since the mid-1980s and agriculture programs have been shoe-horned into pre-set spending limits.

Disturbing, too,are the relatively stagnant -- even declining -- trends that have characterized U.S. grain and oilseed exports during the past decade. This contrasts sharply with the overall growth in world trade in these commodities.

Given this environment, many agricultural producers and agribusinesses have serious reservations about their future. In an atmosphere of declining trends in both federal expenditures and exports, the United States must reevaluate agricultural

policies and chart a sound course for future economic growth. Given the declining trend in U.S. government support for agriculture, U.S. policymakers -- in fairness to both farmers and agribusiness -- should focus on policies that permit economic growth and a smooth transition away from dependency on federal payments. The clear message for U.S. agriculture for the 1990s is to seek a greater proportion of income from the marketplace rather than from the government.

To invigorate sustainable growth for U.S. agriculture in this climate, a more balanced policy approach must be achieved. All too often, farm bills have taken a short-term perspective in trying to address farm income problems of the previous five years. For sustainable growth in which all sectors of agriculture can participate, a longer-term perspective is needed.

Three vital questions should be addressed in any agricultural policy debate:

1. **Will the policy be beneficial, in the long term, for farmers?**

2. **Will the policy encourage or allow economic growth in other sectors of agriculture -- inputs, marketing, and processing?**

3. **Will the policy be of general benefit to consumers, general society, and the national economy?**

II. U.S. Agriculture: A Decade of Stagnation

Despite attempts in the 1985 and 1990 farm legislation to reform growth-impeding policies, U.S. agriculture has been stagnant, at best, for more than a decade.

In the grains sector, in particular, U.S. agriculture has been struggling (Exhibits 2 and 3). Despite some fluctuations, world grain markets (Exhibit 2) have continued to expand, while the United States has experienced virtually zero growth.

A review of the same data on soybeans (Exhibit 3) is even more troubling: World trade is increasing, but the United States clearly is in decline.

These troubling trends provide evidence of an expanding world market in which the United States is just not participating. The lack of U.S. expansion is creating serious economic problems for U.S. agribusiness; railroads, barge lines, elevators, fertilizer dealers, and farm equipment and supply dealers all feel the pinch of reduced economic activity in agriculture.

The economic pressures on agribusiness have not fully spread to the farm sector, because government payments have cushioned farm income. But unless current trends reverse, farmers soon will feel the effects of lost world market opportunities.

Exhibit 2

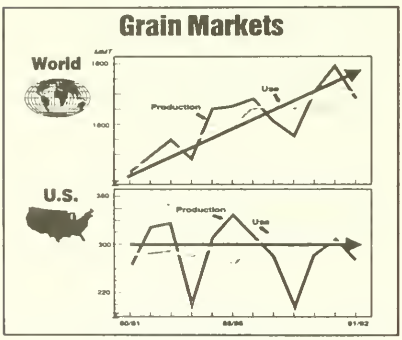
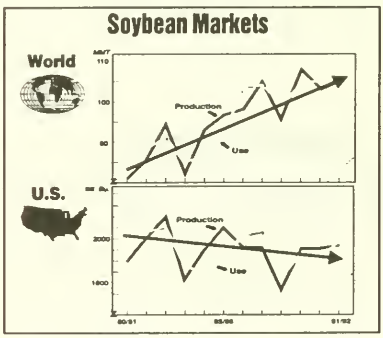


Exhibit 3



III. Sources of U.S. Agriculture's Problems/Recommended Solutions

The sources of U.S. agriculture's economic woes are many and varied.

Some of them, such as the dumping of subsidized commodities and products onto world markets and trade-distorting practices that block market access, cannot be unilaterally controlled by U.S. policymakers. However, many impediments to economic growth are the direct outgrowth of U.S. policies.

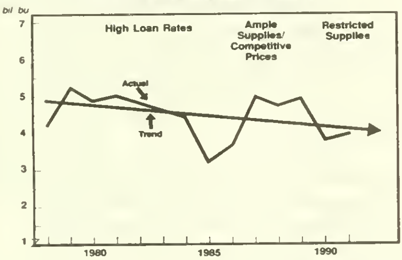
What are some of the most important policy impediments to economic growth in U.S. agriculture? And what can be done to correct these policies to make U.S. agriculture a full participant in a growth economy?

A. Problem: Domestic Farm Programs That Impede Growth: Acreage Idling and Excessive Loan Rates

Since 1980, the two dominant domestic policy factors impeding agricultural growth have been excessive loan rates (1980-85) and acreage idling policies (1986-). The adverse impact of those policies on U.S. grain and oilseed exports is graphically demonstrated in Exhibit 4.

Exhibit 4

U.S. Grain/Oilseed Exports



From 1980-85, exports were driven down by high loan rates that forced U.S. prices to uncompetitive levels.

These damaging loan policies were corrected by the 1985 Farm Act. For a few years thereafter, markets improved. From 1987-89, the United States had ample supplies and competitive prices -- attributable almost exclusively to its sizable grain carryover stocks and the market-competitive prices permitted by the generic commodity certificate program. But since 1989, stocks are down, U.S. grain supplies are more restricted than other exporting nations, and predictably, exports have again dipped sharply.

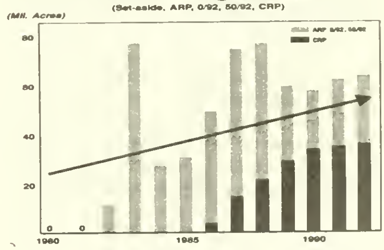
With the passage of the 1985 Act, policymakers acknowledged that loan rates that artificially escalate U.S. prices above world market levels are extremely harmful. But unfortunately, we have not yet acknowledged that acreage-idling programs that restrict supplies and push U.S. prices to uncompetitive levels are just as damaging.

The United States now is idling nearly 64 million acres of cropland previously devoted to grain production (Exhibit 5). About 36 million of those acres are idled under the Conservation Reserve Program (CRP). Another 15 million acres are idled annually in acreage reduction programs (ARPs). Another 12 million acres are taken out of production under the so-called 0/92 acreage-reduction policy.

Exhibit 5

U.S. Acreage Idled

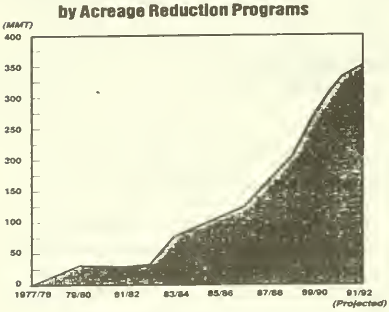
(Set-aside, ARP, 0/92, 50/92, CRP)



Combined, these programs have led to a cumulative total of grain production foregone by the United States of more than 350 million metric tons (Exhibit 6). **This lost production equates to lost employment of 120,000 jobs and lost economic activity of $42 billion.**

EXHIBIT 6

Cumulative Amount of U.S. Grain Production Foregone by Acreage Reduction Programs



Acreage-reduction programs have always been a dubious policy scheme:

- They increase average farm production costs. Based upon cost-of-production estimates published by USDA, the average unit cost of producing grains has been increased by a range of 5 to 15 percent -- which equates to 15 to 50 cents per bushel -- by the heavy use of ARPs, CRP and other acreage-idling programs in recent years.

- They limit net farm income. Regulatory impact analyses by USDA's Agricultural Stabilization and Conservation Service (ASCS) show repeatedly that net farm income is higher when ARPs are low or non-existent.

- They discourage sound farm management in crop rotation, conservation and environmental practices.

- And in many ways, they have the same effect as excessive regulation or a hidden tax by causing productivity losses; needlessly increasing costs; limiting the use of resources; and damaging profitability in all sectors of agriculture.

The impact of this loss of productive capacity caused by acreage idling has not been fully felt by producers, whose incomes have been cushioned by CRP and deficiency payments. Net farm income, widely viewed as the barometer of the agricultural economy's health, has remained at relatively high levels as a result of government payments.

But the economic impact on other segments of agriculture has been much more severe. Largely lost in the debate is that the farm policy structure through which farmers qualify for government payments has placed tremendous financial and economic strains on other segments of U.S. agriculture.

Particularly hard hit have been the transportation, farm-supply, and agricultural infrastructure sectors:

- Because of slack demand, rail carriers reduced the number of rail cars available for grain and product shipments by 30,000 (18 percent) during the last decade. The grain, feed and processing industry now is encountering occasional rail car shortages, but not because of strong demand. The combination of the disinvestment by rail carriers and the natural attrition of an aging rail car fleet means that America's rail transportation capacity is downsizing in expectation of reduced grain and product market volume.

- Land retirement under the Conservation Reserve Program has shrunk economic activity in many rural communities. In one small area of northern Missouri, encompassing 37 counties, a 1991 study by USDA's Economic Research Service showed that the CRP has resulted in decreased farm supply sales of over $72.5 million and a reduction in total economic activity (agriculture plus all other sectors) of up to 5.7 percent. (This figure does not include the added negative impacts of annual acreage set-aside in these rural counties.)

- Grain storage and handling facilities are being sold at depressed prices unprecedented in recent times. A concrete grain elevator in the Midwest was sold at auction recently for just over 6 cents per bushel of storage capacity. That compares to an average

of 50 cents per bushel of capacity in the mid-1980s. Construction costs for new facilities range from $1.50 to $3 per bushel of capacity.

Such examples point to a severe economic recession in the U.S. grain marketing industry, with assets valued at a fraction of replacement cost; no incentives for investment; and strong incentives to disinvest. Unless the United States uses its crop-production assets to maintain the viability of the grain marketing and transportation system, the agriculture infrastructure will continue to deteriorate. If that happens, U.S. agriculture will lose the economic base and marketing infrastructure needed to support high levels of production-generated income.

The economic consequences of U.S. acreage-control policies extend beyond production agriculture and the marketing chain. Decreased economic growth also leads to fewer jobs and decreased employment opportunities.

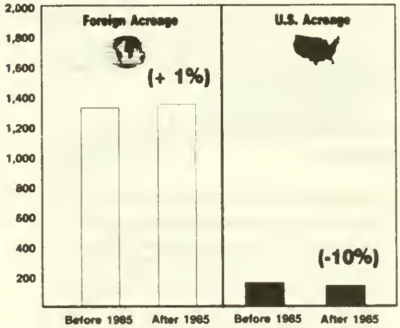
These decreased opportunities are reflected in declining enrollment in agriculture disciplines at state colleges and land grant universities. The Food and Agriculture Education and Information System at Texas A&M University reports that enrollment is down 37 percent since 1982. Part of this decline undeniably is a result of increased efficiencies in agriculture and a shift in needed skills. But this trend also suggests that students perceive agriculture as an industry in decline. The result can only be a decrease in the quantity and quality of human resources available to agriculture and agribusiness, a trend that does not bode well for the future of U.S. competitiveness.

The United States is the only country in the world that significantly limits its own agricultural productive capacity. Acreage the United States voluntarily takes out of production is immediately (and to a great extent irreversibly) replaced by additional acreage planted elsewhere around the globe (Exhibit 7). **The result of acreage-control schemes is to unilaterally forfeit markets and the economic future of U.S. farmers and agribusiness**.

The futility of the United States pursuing acreage-idling programs is clear. From 1975-84, the United States planted an average of 254 million acres annually to grains and oilseeds. From 1985-91,

EXHIBIT 7

World Grain and Oilseed Plantings



acreage fell by about 10 percent to 230 million acres. Simultaneously, plantings in other countries grew from 1,828 million acres to 1,843 million acres, virtually replacing America's idled acreage on an acre-for-acre basis. In effect, ARPs export productive U.S. farm acreage to other countries.

The United States now has only 11 percent of the world's total grain and oilseed acreage in production. A 10 percent reduction in U.S. acreage can be replaced by a simple and easily achieved 1 percent increase in planted acreage in other countries. **This situation of highly competitive producing countries responding to U.S. acreage cutbacks with more plantings of their own will only intensify in future years, as the former Soviet Union removes state controls to jump-start its massive natural agricultural production resources.** Indeed, prior to the advent of communism and central planning, Russia and Eastern Europe dominated world grain trade with 55 percent of exports in the early 1900s.

The corollary impact of withholding large amounts of cropland from production has been to create a de facto stocks-management program. Carryover stocks have been depressed artificially to minimal levels that are inadequate to serve market needs. Given current grain stocks levels, any adverse weather patterns or unexpected demands could force the U.S. into making embarrassing choices on the disposition of potentially short grain supplies.

Recommendation: U.S. Needs "Growth-Friendly" Domestic Policies; Acreage-Control Policies Phased Out, Loan Rates Below Market-Clearing Levels

Federal farm programs should not be a deterrent to economic growth. Income support programs should be structured so as to encourage economic activity and growth.

The NGFA believes that the following steps should be taken:

1. **Acreage-reduction programs need to be phased out and the direct linkage between acreage-reduction programs and federal budget exposure must be cut. Under the current farm program structure, federal budget costs (i.e., deficiency payments) are reduced as production of farm program crops is curtailed. This linkage is the primary reason the United States continues to self-inflict economic damage on its agricultural sector.**

   Congress and the Executive Branch need to find some means, other than ARPs, to control federal budget costs for agricultural programs. Keeping land in production will allow both farmers and agribusinesses to earn their livelihood from the marketplace, instead of depending on a government paycheck.

2. **The Conservation Reserve Program should undergo a comprehensive review.** The prudent use of CRP and the purpose for which it was originally intended – taking highly erodible cropland out of production and devoting it to a conserving use – should be fully supported. But with many of the original 10-year CRP contracts maturing over the next several years, a **comprehensive review of the program is merited.** Based upon current world supply needs, the United States should look for environmentally responsible ways to bring part of this idled cropland back into production.

3. **Remedy the acreage-reduction/control problem.** In so doing, the corollary "minimal stocks" problem also can be solved. Freeing up production for the market obviates the need for a government-managed stocks program and the permanently depressed producer prices that heavy government involvement brings. It also allows both agribusiness and producers to receive the benefits of improved fundamentals of supply and demand.

4. **Retain market-clearing loan rates.** The mistake of the 1981 farm act must not be repeated; policymakers should resist the temptation to increase loan rates. If loan rates are allowed to creep upward, other exporting countries will continue to compete with each other beneath the U.S. loan rate/price. Because other nations cannot store large quantities of their production, they sell their crop quickly at the best price the world market will offer. Another prolonged period of U.S. non-competitiveness in international markets by backsliding to higher loan rates cannot be tolerated. Loan rates that allow farmers to produce for the market and reap the benefits of the market -- not forfeit production to the government -- must be maintained.

B. Problem: Trade Policies Have Not Enhanced U.S. Market Share

The Food Security Act of 1985 created the Export Enhancement Program (EEP), which was designed to keep the United States competitive in world wheat and other markets.

Since 1986, nearly $4.5 billion has been spent on EEP to combat export subsidies of other countries and in an effort to maintain U.S. market share in subsidized markets. Even so, with the exception of the 1987-89 surge in exports permitted by the generic certificate program (which ensured adequate price-competitive supplies of U.S. commodities), U.S. grain and oilseed exports have been in a steady downward trend since the late 1970s (Exhibit 8).

Exhibit 8

Total U.S. Exports of Major U.S. Grains and Oilseeds

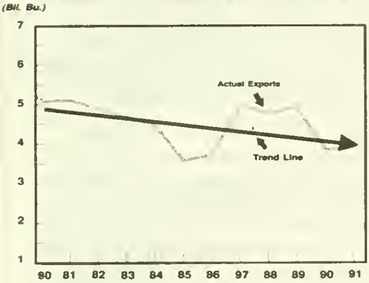
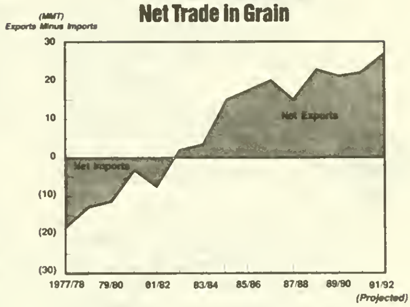


Exhibit 9

European Community Net Trade in Grain



At the same time, exports of some primary U.S. competitors have skyrocketed. The European Community, a net importer of nearly 20 million tons of grain in 1977/78, now is a net exporter of 25 million to 30 million tons annually (Exhibit 9). Export subsidies by the European Community now outpace EEP funding by about 10:1.

In short, it seems clear that, while EEP has helped maintain the competitiveness of certain U.S. products in some markets, it has failed to generate broad-based, worldwide market growth for U.S. agricultural commodities. The United States has lost its competitive edge and market share in agricultural exports.

The true effectiveness of EEP in adding to U.S. export volume has become a matter of controversy. In some years, EEP has produced a degree of additionality; in recent years, the effect has been less clear. This is partly attributable to low stocks, particularly wheat. Most recently, increasing political concerns that subsidized U.S. exports may harm so-called "non-subsidizing" countries have led to an increased reluctance to use EEP aggressively. Continued EEP offerings while flour donations to schools have been discontinued by USDA also have raised objections. It is clear that EEP, while of some value, cannot be expected to ensure long-term growth prospects for U.S. agriculture.

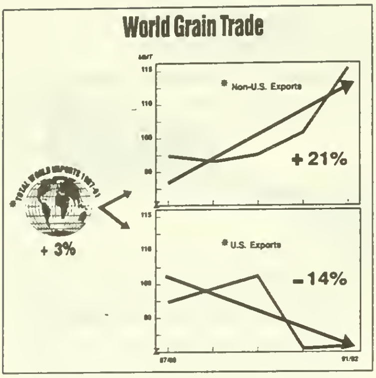
Recommendation: Trade Policies Should be Market-Oriented; International Trade Agreement is Needed

The best hope for achieving meaningful reform of worldwide agricultural trade is to arrive at an agreement in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), based on concepts embodied in the Dunkel text.

However, it should be understood clearly that a successful GATT in no way ensures U.S. competitiveness. In fact, unless the United States makes necessary adjustments in current domestic policies that severely restrict both production and stocks, the United States is in a very poor strategic position to build market share even with a reduction in E.C.-subsidized exports.

The experience of the last five years in world grain trade is demonstrative. From 1987-91, world imports of wheat and coarse grains expanded 3 percent (Exhibit 10). But only countries outside the United States benefited from this trade growth: Non-U.S. export volumes increased by 21 percent while U.S. exports shrunk by 14 percent.

EXHIBIT 10



U.S. agriculture desperately needs GATT and a North American Free Trade Agreement. These trade agreements will create market opportunities. But they will not guarantee higher U.S. growth or increased market share. Unless the United States produces and competes for expanded markets, the major benefits will go to other countries. Thus, to encourage growth, the U.S. must reform its domestic policies, with or without a GATT agreement.

Ground rules must be established for international agricultural trade that move in the direction of a truly market-oriented system. It is to be hoped that, as international trade barriers fall and U.S. policies increasingly promote competitiveness and economic growth, EEP will become superfluous and be phased out. Meanwhile, the continued use of EEP, and other U.S. export programs -- such as the GSM export credit guarantee programs and P.L. 480 -- are essential to the competitive position of U.S. agricultural exports. However, if it is not used aggressively, EEP's net value to agriculture must be questioned.

C. Problem: U.S. Needs to Strengthen Value-Added Product Sector

America's major export competitors, such as the European Community, have long recognized the multiplier effect of the value-added business.

But the United States has forfeited market share in value-added commodities. America's value-added sector is highly dependent upon the competitive position of whole grains. For instance:

- in hog production, 80 percent of variable costs consist of grain and feed.
- in flour milling, raw wheat comprises 75 to 85 percent of the value of flour.
- in soybean processing, 85 to 90 percent of the value of meal and oil is represented by the cost of raw soybeans.

Value-added businesses could generate employment and a stronger U.S. economy, creating jobs and income along the entire production, marketing and transportation chain.

But realistically, if the United States does not consistently maintain adequate grain supplies at world-competitive prices, the value-added sector will struggle to compete and grow.

Recommendation: Additional Marketing Emphasis on Value-Added; Stay Competitive in Whole Grains

To be successful in the value-added business, it will be essential for the United States to take the following steps:

1. **Use the Export Enhancement Program and GSM export credit guarantees more aggressively** in building markets for value-added commodities; and
2. **Revamp farm policies** to allow the United States to be world-price-competitive in whole grains. Market promotion alone will not generate sustainable growth in value-added products. It will be critical to ensure this sector has access to available, price-competitive raw materials -- i.e., the raw grains -- that represent a majority of the value of the processed product.

D. Problem: Government Regulations are Eroding Profitability and Competitiveness

U.S. public policy continues to foster more stringent legislative and regulatory control. This environment has led to excessive regulation, imposing an additional tax on business and retarding the potential for earnings and growth in U.S. agriculture. Policy gains that are moving agriculture toward market orientation and improved economic growth are being impeded -- and in some cases reversed -- by regulatory action.

Examples of regulatory restraint of growth are evident in every segment of agriculture.

In production agriculture:

- it is estimated that 5 to 10 percent of all farmers will never implement a conservation program on their land -- because of regulatory burdens.
- compliance with sodbuster and swampbuster statutes has become so exceedingly complicated and costly that increasing numbers of farmers have chosen not to participate in farm programs. The net result is that farmers will have fewer options to consider in their planting and marketing decisions because of overly complicated laws and unrealistic regulations that are overzealously implemented.

In agribusiness:

- the Clean Air Act requires potentially very expensive permits and emissions assessments for grain handling and processing facilities;
- the Occupational Safety and Health Act (OSHA) has imposed numerous regulatory requirements; and
- the blizzard of paperwork accompanying each new regulation saps businesses of time and managerial expertise otherwise devoted to efficient business operations.

It is estimated that in the past 10 years alone, federal regulatory and paperwork requirements have added $50,000 to the annual cost of operating a modest-sized country elevator. This translates into about 5 cents per bushel added cost for every facility that handles the farmers' grain. Since multiple facilities often handle grain between the farm-gate and consumer, the cost pass-back to the farmer is probably in the range of 10 to 15 cents per bushel.

Taken individually, many of these regulatory requirements may appear reasonable. But the cumulative effect is putting producers and agribusinesses into a cost-price squeeze that severely restricts profitability. It may be that many agribusinesses will not be able to comply with various mandates, but will continue operating out of compliance, risking sizable fines or prison terms. Others may ultimately cease doing business or relocate to a less restrictive regulatory environment. In any case, jobs are lost, tax bases are eroded and economic activity is diminished.

Recommendation: Regulatory Atmosphere Needs to be "User-Friendly"

In rulemaking procedures and in legislation, the Congress and regulators must focus much more closely on costs and benefits of statutes or regulation.

The cumulative effects of regulation cannot be allowed to unduly burden American business to the point that economic growth is made impossible. This is crucial to U.S. competitiveness in the international marketplace, in which American products vie against those of nations with dissimilar regulatory requirements. To remain competitive, the United States cannot afford to regulate business in a vacuum without regard for the requirements of both competitors and customers. President Bush was correct when he stated, "Every regulation that reduces efficiency slaps a hidden tax on the consumer....From the tab on a bag of groceries at the checkout line to the sticker price on the showroom floor -- every American takes a hit when the government over-regulates."

V. Conclusion

American consumers have access to the most affordable, most reliable, most healthful food supply in the world. The reasons for U.S. agricultural productivity are obvious:

- abundant natural resources;
- highly efficient, productive farmers;
- a comprehensive and efficient marketing infrastructure; and
- an economy in which markets are allowed to function freely to discover price and to distribute investment in productive resources.

To continue as the world's most reliable supplier of food, the United States must continue to invest in and more fully utilize its comparative advantages. It must search for policies that are "growth-friendly" and avoid the growth-impeding policies of the past. Leaders and policymakers need to give all sectors of agriculture the opportunity to grow. These same policies will contribute to improved growth in the general economy.

The policies that will lead to economic growth include:

- more fully utilizing land resources by freeing farmers to produce for the market, not for the government, and to benefit from the resulting enhanced market opportunities;
- promoting free-market trade policies from which the United States, as a low-cost producer and processor, can benefit;
- encouraging value-added product development and promotion and maintaining world-competitive raw material prices to keep the U.S. competitive in both whole grains and in value-added markets; and
- reining in the rampant growth of regulation that currently hampers investment and growth.

The National Grain and Feed Association believes now is the time for all sectors of U.S. agriculture and federal policymakers to work together to formulate policies that will make agriculture a preeminent contributor to U.S. economic growth.

U.S. Marketing Efficiency and Risk-Management System

...A Comparative Advantage for U.S. Farmers in Meeting Competition...

The growth strategies presented in this paper envision placing less reliance on the government for income and more on markets.

Such a change could result in some added market volatility. But is this necessarily bad?

Agriculture is no different than other markets -- such as stocks and bonds -- where there is a trade-off between risks and returns. In agriculture, greater dependence on markets could mean more risk. But it also should offer prospects for higher average returns to producers, who now have the marketing tools to manage such risks. U.S. agriculture has the most sophisticated and efficient risk-management and marketing system in the world. For example:

■ The U.S. market system is highly capable of managing stocks. U.S. farmers have 12.4 billion bushels of on-farm grain storage capacity. Commercial grain elevators have another 9.1 billion bushels. Together, this represents 150 percent of normal U.S. production -- more than any other country worldwide -- a tremendous marketing asset.

Unlike previous farm policies that led to excessive, price-depressing stocks, if markets are allowed to work freely they would control stock levels by encouraging storage in surplus years and drawing stocks out in lean years.

■ Our markets also can manage price risk. Farmers in all regions of the nation have many marketing alternatives. They can hedge in futures or options contracts. They can use cash-forward contracts, minimum-price-guarantee contracts, delayed price contracts and many others. There are even trade options being offered today that guarantee producers no less than the average market price over a prescribed period of time.

Unlike several decades ago, when government loans were necessary to protect farmers from low market prices, our farmers today have a full menu of marketing tools to manage risks and capitalize on market opportunities.

■ The efficiency of the U.S. marketing system is a major strength that ensures that America's farmers receive the best possible price. The average cost of moving a bushel of corn from Illinois to the Gulf is 30 to 50 cents; that compares to costs in other nations exceeding $1 per bushel. Unfortunately, the United States has lost some of this comparative advantage in the last decade because this system is not being utilized at anything near full capacity. Other nations are catching up. If the United States does not start using its infrastructure more fully, it will continue to lose it.

If the United States adopted a truly market approach to its agricultural industry, how would our foreign competitors react?

They would have substantial problems coping. Foreign competitors:

- have fewer risk-management tools.
- have higher marketing costs.
- would confront less predictable prices, which would mean slower foreign agriculture growth.

Rather than having U.S. policies that stabilize world markets and encourage competition, our nation should revamp its policies to force the world to compete on terms most favorable to us.

The U.S. market system is a great strength and advantage for our farmers. In fact, with production technology quickly spreading worldwide, it may be the greatest advantage the United States has left in meeting global competition. But to make this advantage work for the benefit of U.S. farmers, the market must be free to work.

About the National Grain and Feed Association

The National Grain and Feed Association is the national nonprofit trade association of 1,200 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets.

The NGFA is unique among agribusiness trade organizations in that its members encompass all sectors of the grain, feed and processing industry and represent a balance of small, large, public, private and cooperative firms.

Founded in 1896, the NGFA's members include:

- raw grain shippers, such as country, terminal, and export elevators.
- buyers and receivers of grain, such as feed mills; corn mills; flour mills; oilseed processors; integrated poultry and livestock operations; cash grain and feed merchandisers; and commodity futures brokers and commission merchants.
- companies involved in allied industries, such as railroads; barge lines; banks; grain exchanges; insurance firms; and other suppliers of products and services to the industry.
- 40 affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide.

REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL AND ITS IMPACT ON FARM COMMODITIES

TUESDAY, MARCH 23, 1993

House of Representatives,
Subcommittee on General Farm Commodities,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. Tim Johnson (chairman of the subcommittee) presiding.

Present: Representatives Peterson, Volkmer, Minge, Pomeroy, English, Stenholm, Sarpalius, Barlow, Bishop, Emerson, Smith, Nussle, and Dickey.

Also present: Representative E (Kika) de la Garza, chairman of the committee, and Representative Pat Roberts, ranking minority member of the committee.

Staff present: William E. O'Conner, Jr., minority policy coordinator; John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anne Simmons, Anne C. Keys, Howard Conley, James A. Davis, Merv Yetley, and Neil P. Moseman.

OPENING STATEMENT OF HON. TIM JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

Mr. Johnson. The subcommittee will come to order. This is the second General Farm Commodity Subcommittee hearing on the subject of review of economic outlook for farm commodities and how the President's economic proposal would affect that outlook. Last week we heard testimony from a series of agricultural organizations from around the country. This week we will be talking with representatives from the Congressional Budget Office, FAPRI, universities, and some additional agricultural organizations. We will hold a final hearing on this topic in a few weeks from now to talk with members of the Clinton administration.

I am looking forward to the testimony today. We have dwelled this past week, I think, a great deal on the difficulties that the commodity groups will face under the budget plan. I am hoping that we can spend a bit more time talking about alternatives and how we get from here to there with a minimal impact on farm income.

Thank you.

Also, any prepared statements from the members will appear at this point in the record.

[The prepared statements of Mr. Sarpalius and Mr. Emerson follow:]

OPENING STATEMENT
THE HONORABLE BILL SARPALIUS
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
MARCH 23, 1993

Thank you Mr. Chairman, and welcome to our distinguished panel of guests.

The economic plan presented by President Clinton has the potential to bring this nation out of its economic tailspin; a goal which we have been working toward for several years. While it is important to look at the proposal as an entire package and debate its merit as a whole, it is equally important to assess the worthiness of each and every one of the proposals so that we do not drown while learning to swim.

I am deeply concerned about the potential impacts of the proposed Btu tax on the agricultural community. Any increase in the amount of outlays required in farming must come directly from the farmer. Agriculture does not have the luxury, unlike so many other businesses, to spread out their costs across the marketplace. This leads to lower economic returns in agriculture, and has the potential of driving a great deal of farmers out of business. It is imperative that we fully understand the impacts a Btu tax will have on agriculture and the rest of the economy, so that we may make a decision in the best interests of all of the American people; not just a selected few.

It is estimated that a Btu tax of 40 cents per million Btu's of energy will cost farmers in the neighborhood of $600 million. Let me explain. It is estimated that the Btu tax will cost somewhere in the neighborhood of $4-5 in additional costs for row crops, and $1.50-1.75 for small grains. This works out to approximately 5 cents per bushel in additional DIRECT costs due to higher costs for fuels, diesel, irrigation, and the like. This number does not even reflect the amount of INDIRECT costs that will be incurred at the terminal markets. Here lies the potential for increased energy costs to be passed back to the farmer for higher transportation costs. These costs will be realized by the farmer because he or she does not have the opportunity to pass these costs along. The only recourse a farmer has is to hope for higher prices in the market place, and budgetary cuts are making this increasingly unlikely.

The Btu tax must be looked at very closely. It is imperative that we examine this topic with due consideration, and work to find a solution to America's economic problems. We cannot allow agriculture to continue to take hits without allowing some recourse for farmers to offset their losses. I am uneasy about the impacts of the Btu tax coupled with budgetary cuts, and firmly believe that we MUST take every opportunity to learn and understand these impacts.

I look forward to the testimony that will be given before this Subcommittee today. It is yet another step towards a fuller understanding of these proposals, and I appreciate your willingness to make your voice heard. Thank you.

Bill Emerson M.C.

U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities
Room 1301, Longworth House Office Building
Washington, DC 20515

STATEMENT OF CONGRESSMAN BILL EMERSON
BEFORE THE GENERAL FARM COMMODITIES SUBCOMMITTEE
REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL
AND THE RELATED ECONOMIC OUTLOOK FOR AGRICULTURE
MARCH 23, 1993

Mr. Chairman, I thank you for holding this important hearing on the President's economic proposal and the related economic impact on American agriculture, rural communities, and local jobs. This issue is a timely one -- particularly given all that our local farming families and agricultural communities have at stake under the President's package.

I remain deeply concerned by the principal make-up of the President's economic plan which forces American agriculture to shoulder a disproportionate share of the budget reduction burden. Unfortunately, I fear this is going to have a devastating and extremely negative impact on the sustained livelihood of the Missouri family farmer and jobs on Missouri's main street.

With nearly eight billion dollars in farm cuts proposed through 1998, American agriculture simply cannot afford Clinton's spending and economic package. The President's spending and economic package, while trimming agriculture to bare bones, gives others areas of the federal budget a spending increase. This is flat unfair and will cause economic harm to the backbone of this nation's food and fiber production efforts.

We have proved to the rest of this nation that American agriculture is willing to pull its fair share of the deficit reduction load -- but now President Clinton's economic plan sacrifices the economic health and stability of our rural towns and communities to pay for increased spending in other budget areas.

In the President's plan, farm producers, who represent less than 2 percent of the population, are being asked to shoulder nearly 10 percent of the non-defense related budget cuts. This burden combined with the proposed BTU energy tax, Barge Fuel Tax or Inland Waterway User Fee, increased personal income tax, and other agricultural user fees means the American family farmer gets hit harder than any other segment of the American population represented in the federal budget. This is simply unfair and inequitable.

Certainly, an increase in taxes will have a tremendous negative affect on this nation's hard-working farmers and local agri-businesses -- namely, the local Main Street. For example, the President's economic plan will increase barge fuel taxes by 525 percent, from $.19 to $1.19 per gallon. This tax increase will decimate the domestic barge industry which is so critical to farm producers in the Mississippi Delta region along with producers throughout the Midwest and South.

Equally important, the increased costs of the Inland Waterways fuel tax cannot be passed on to the end purchaser in foreign ports. Rather, the lion's share of the tax will be passed on to the local farmer in the form of lower prices for grain and livestock at the farm gate. By unfairly singling out this industry so vital to our nation's transportation network, the new Administration is prescribing a serious blow to the viability of future family farming operations and local jobs.

This tax coupled with the BTU Energy Tax could easily cost more jobs in the agricultural arena than the package purportedly intends to create. I am aware of industry estimates which state that the cost per gallon of gasoline will increase by over 7 cents, diesel fuel by 8 cents, and propane by 2 cents. When Missouri farmers are trying to squeeze a nickels worth of profit out of a bushel of grain, a bale of cotton, or a pound of beef or pork -- increasing the cost of production through more taxes just won't pay the bills.

Unfortunately, increased fuel costs are just the beginning. Fertilizer, pesticides, herbicides, livestock feed and supplies, machinery, and even the tires on farm equipment will cost more through this energy tax proposition. Manufacturing estimates show anhydrous ammonia alone could rise by as much as 40 dollars per ton. Drying, ginning, grain storage, and livestock production costs along with transportation and electricity expenses will also go up.

The local banker and farm credit office must also be considered. The reduced profitability of farming through increased taxes, higher costs, more paperwork, and added government regulations will make the trip to the local banker more difficult than ever.

Adding another tax burden on the shoulders of farm producers and related farm industries won't balance the budget -- it will only make a bad situation worse. Greater tax burdens -- particularly in the nature of an energy tax -- only rob from those hard-working men and women who spend their lives providing the food and fiber for the people of this nation.

Mr. JOHNSON. The gentleman from Oregon, do you have any opening remarks?

OPENING STATEMENT OF HON. ROBERT F. (BOB) SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. SMITH. Mr. Chairman, thank you for recognizing me. Thank you for holding this hearing. I surely agree with you that we have to find a way to reach a solution which has minimal impact upon farmers and ranchers in this country.

I have a statement here, and I won't read it, Mr. Chairman, but I did want to share with you and the subcommittee an example of a farmer that was in my office last week. He farms about 2,300 acres of wheat and peas which are an alternate crop that very few farmers can grow in my part of the country. He has really no debt against his farm, which is unusual, but it makes him, of course—it gives him an advantage as far as costs are concerned, so his credits are very low and his interest payments are practically zero. His equipment is old, but it is well maintained as most farmers in this country.

He utilizes the futures market; his farm is on computer. Last year he received $3 for his wheat with a deficiency payment of 80 cents, that gave him about $3.80 for his wheat. His cost of production was $3.82. If he hadn't grown some peas, he would have lost money. This fellow operates on some of the richest land in the world without irrigation. He has routinely harvested 90 bushels per acre. He has skill, he is in a good part of the country, and yet he is barely surviving, and it is obvious to anybody that looks at the proposed Clinton plan which, among other things, adds 50 cents per acre foot if you have irrigation water on some of your ground, especially, reclamation water projects. Btu tax he estimates will cost him $1,125 a year. A 500-percent increase in inland waterway user fees, because we use the Columbia River in that part of the world, is another $1,100 or $1,200 to his costs, the elimination of 50/92 and 0/92, increase in the flex program which likely will occur from 15 to 25 percent could cost him from $3,000 to $6,000.

In other words, looking at this very efficient low debt farmer who has a better chance to make it than anybody else, we will take him from a positive position in a very efficient farm to one that is losing money if all this is enacted. So I agree with you, Mr. Chairman, somehow we have to find a way to reach what may be the result of all this but with minimum impact on farmers simply because any impact like this from $6,000 to $10,000 are going to take these people out, even the most efficient as I have noted.

Thank you, Mr. Chairman. I will submit this for the record.

[The prepared statement of Mr. Smith follows:]

STATEMENT OF
ROBERT F. SMITH
BEFORE THE
SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
MARCH 23, 1993

Mr. Chairman, I'd like to thank you for calling this hearing today.

I'd like to start off by relaying a recent conversation I had with a wheat farmer from Athena, Oregon. This fellow was so concerned about the Administration proposals he is hearing about that he showed me a complete cost accounting for his farm.

His accounting was the most intimate glimpse into an individual farm I think I've ever seen. The story it told was chilling.

This constituent is committed to intensive management of his operation. He has worked for some time with the local community college to develop an effective and complete cost accounting system for his farm. He knows where every dime is spent, and he knows were every dime comes from.

He farms about 2300 acres, 60% wheat, 40% peas. He operates in conjunction with his father, who is equally fastidious about management. He admits he has had five good years and seems determined to remain profitable.

His credit costs are low, he has chosen to avoid the quagmire of debt. For the most part, he operates on a cash basis -- if he doesn't have it, he doesn't spend it.

His equipment is old, but well maintained, he expects to wring every last bit of productivity from each investment. By carefully sharing contract labor with his father's operation and working long, back-breaking days, he keeps his overhead down.

He aggressively utilizes the futures market to minimize risk. In the most recent marketing year, he received $3.00 per bu. at the farm gate for his wheat. Adding in his share of deficiency payments and he received $3.80 per bu. His cost of production was $3.82 per bu. If he hadn't had a successful pea crop, a crop that few of Oregon's wheat ranchers can grow, he would have lost money.

This gentleman farms some of the richest land in the world. He routinely harvests 90 bu. per acre. He has the skill, moisture and good fortune to be able raise an alternative to wheat. I believe he's the shrewdest farmer I've ever known. Yet, he's barely surviving.

Simply put, President Clinton's scheme represents an assault on agriculture. Please allow me to outline some of the components of his plan. Though I mentioned some of this at last week's hearing, the consequences are so grave that it bears repeating.

His plan includes a 50 cent per acre foot surcharge on irrigation water

from Bureau of Reclamation water projects. He proposes a BTU tax for diesel and gasoline that will cost a typical 2,500 acre wheat farm an additional $0.02 per bushel, or $1,125 per year.

His plan contains a 500% increase in the inland waterway user fee that will increase the cost of moving wheat to Portland by 2 cents a bushel, costing this same farm $1,125 in extra transportation costs.

Clinton's energy tax will also increase the cost of chemicals and fertilizers on this typical farm. A 3% increase in the cost of these materials increases total production costs by $800. An increase from 15% to 25% in the triple base program, coupled with a 5% set-aside increase to fund the elimination of 0/92, will net farm income by $3,100 to $6,200.

This list does not even include federal income tax increases, cash rent inflation because of the $100,000 off-farm income cap, growth in cost of living and business expenses as a result of taxes throughout the economy, and the President's health care plan with a potential price tag of $90 billion.

I have to ask myself what will happen to my wheat rancher if the Clinton tax scheme is adopted. What will happen to his equally hard working, but less efficient, neighbors? What will happen to his friends who have a bad year?

I ask each of today's witnesses, what will happen to America's farmers and ranchers if we adopt Clinton's proposal?

Mr. JOHNSON. The gentleman from Kansas, Mr. Roberts.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. Yes, thank you, Mr. Chairman, and I am sitting in this morning. I missed the earlier hearing. We had a hearing at the same time when you had your previous hearing.

I want to thank you for holding the hearings and providing the leadership on a most important topic. The budget resolution obviously has passed the House, is now being considered in the Senate. Let me emphasize that the actual budget figures will be presented in April, in early April, and so we are still operating without all of the figures, and so I think this kind of testimony is especially appropriate.

We have done a study on the Republican side of the House Agriculture Committee in regard to the Clinton package in agriculture, and then we have revised it. It not only deals with commodity programs, but also the effect of the Btu tax which, in my personal opinion, is quite a burden for our producers to shoulder during very difficult times. I am going to be very interested to see if the CBO folks and the FAPRI folks and the Aggies from Texas A&M and all their specific figures match some of the projections that we have put together, so I think the hearing will be very helpful, and I yield back. Thank you, Mr. Chairman.

Mr. JOHNSON. And the gentleman from Texas, Mr. Stenholm, any opening remarks?

Mr. STENHOLM. No.

Mr. JOHNSON. With that, then, why don't we proceed to the first panel. Ms. Eileen Manfredi, Principal Analyst, Budget Analysis Division, Congressional Budget Office; Dr. Robert Young, codirector of the food and ag policy research institute, University of Missouri, Columbus, Missouri; and Dr. Ron Knutson, director, agriculture and food policy center, Texas A&M University, College Station, Texas. If you would come forward and, again, at this hearing we will ask for your summaries from the three of you. Whether you find it best to read your statement or to summarize is up to you, but your full statements are admitted in the record of the committee and will be available for all the committee members and the staff.

In order to expedite things we are going to try to abide by the 5-minute rule here. I am not overly rigid about cutting people off, but when the red light comes on, that is an indication that both the members of the committee and the panel members should at least be thinking in terms of concluding their remarks. So with that we will begin with Ms. Manfredi, and again your full statement is received for the record.

STATEMENT OF EILEEN M. MANFREDI, PRINCIPAL ANALYST, BUDGET ANALYSIS DIVISION, CONGRESSIONAL BUDGET OFFICE

Ms. MANFREDI. Thank you. I would like to summarize CBO's outlook for the commodity projections costs and CCC outlays over the next 5 years and our view of the costs of the Clinton budget proposals. As you can see, those of you who have the statement, on page

2, table 1, we have our outlay projections for the CCC for the next 5 years. We are expecting a large jump in CCC outlays in fiscal year 1993 to $15 billion, up from $8.8 billion in 1992.

Some of the reasons for this jump include the huge crops we have seen, particularly in corn, which have led to large deficiency payments, and significant loan activity costs. Other reasons for the jump in outlays are legislation that allowed disaster payments for the 1990 through 1992 crops; some use of secretarial discretion in terms of spending on the export enhancement program, running it at a fairly high level; and the advancing of deficiency payments at 50 percent instead of the normal 40 percent, which has moved some costs that otherwise would have been in fiscal year 1994 into fiscal year 1993.

We are assuming that in later years outlays will fall to around $8 billion to $9 billion a year, as some of the problems we have seen in 1992 with the huge crops are assumed not to be as severe. We are assuming in our baseline a continuation of current law. We are also assuming some response in the EC to their new program so that we would have less export competition from them. And we are assuming a continuation of guaranteed credits to the Soviet Union, or some kind of aid to the Soviet Union that would allow us to have a market there.

I will specifically mention the corn situation since that is the most dramatic one for 1993. Corn outlays in 1993 make up the bulk of the feed grain outlay line in our table, and they are expected to be $5.3 billion this year, up from $2.1 billion last year. If you turn to the table on page 7, which gives some commodity detail, you can see there is a huge corn crop for 1992. It is about 9.5 billion bushels. That is because of the record corn yield that we saw this year. That is leading to an expected doubling of carryover stocks this year and fairly low corn prices, expected to be $2.07 a bushel for crop year 1992.

To alleviate some of the problems of high production, the Farmer-Owned Reserve was opened for the 1992 crop. However, for fiscal 1993 we will see large loan outlay costs, since much more corn will go under loan than would otherwise have been the case and fewer loans will be repaid. So that is all leading to higher corn costs for fiscal 1993, which should alleviate some of the problems next year.

In our baseline we also assume that the Farmer-Owned Reserve will be opened for the 1993 crop. The Secretary has also announced an acreage reduction percentage of 10 percent for the 1993 crop, to take some land out of production and to try to keep costs down and prices up. In the outyears for corn we are assuming outlays will fall from the high level of 1993. We are assuming corn outlays will be between $2.1 billion and $2.6 billion a year from fiscal 1994 to fiscal 1998.

We are assuming acreage reduction set-asides of between 5 percent and 7½ percent a year, and season average prices coming up to a range of $2.25 to $2.30 a bushel. We have had problems, or I should say high outlays, in a number of other crops. Outlays for wheat were much higher, and also the wheat situation is very sensitive to what happens in the former Soviet Union. Outlays for cotton jumped significantly this year. There were high marketing loan

costs as we had reduced exports, and we are expecting a much larger crop in 1993.

If you will notice in table 1 on page 2, in the category of "other commodities," we had a large increase in outlays for that category this year; much of that represents the Food for Progress Program to Russia. We are spending about $200 million in that area. Some of the other categories of outlays that affected the 1993 total include, as I mentioned earlier, continued running of the EEP at a very high level. We are assuming it will spend about $1.1 billion this year, and will stay fairly high in the outyears. This year, disaster payments are expected to be over a billion dollars. We don't have any assumption for disaster payments in the outyears since that must come from legislation.

Now, in terms of the proposals President Clinton has given us, proposals of savings in eight different areas in CCC, we are assuming the savings would be about $4.9 billion over the next 5 fiscal years. The cuts are mostly coming from changes in the 1996 crop year. Three-quarters of the savings come in fiscal 1997 and 1998, and three-quarters of the savings come from three proposals—raising the flex acres from 15 percent to 25 percent, eliminating the 0/92 program, and raising assessments on the nonprogram crops.

We are assuming that the biggest saver in terms of budget outlays is increasing flex acres to 25 percent. We think that will save about $2 billion in the last 3 fiscal years, 1996 through 1998. We are assuming behavioral responses from farmers, but exactly what will happen is very uncertain. Another major saver is eliminating the 0/92 program, which will save about $1 billion in 3 years. For the other programs we are assuming much lower savings, but the total is expected to be $4.9 billion over 5 years. Thank you.

[The prepared statement of Ms. Manfredi appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. We will proceed to Dr. Young.

STATEMENT OF ROBERT YOUNG, CODIRECTOR, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI, COLUMBIA

Mr. YOUNG. Thank you, Mr. Chairman. Let me summarize the remarks that we have made. Our baseline outlook doesn't look really all that different than that discussed by the Congressional Budget Office. We were in about 2 weeks or so ago and sat down with staff and briefed them very thoroughly on our baseline, and that is discussed in the spiral bound document that you have received from us. That includes our supply and use tables and farm income estimates, et cetera.

There is a couple major issues in that outlook that I think we ought to touch on that would certainly make any outlook or cost projections, whatever for agriculture very iffy at this point in time. First would certainly be the former Soviet Union, and if you stop and look at meat consumption in the former Soviet Union in particular and where one would expect that to go given the current state of their economic affairs, you would have to expect that demand for feed products in particular in the former Soviet Union would drop off quite substantially. We have indicated that in our

baseline, almost a 50 percent, I think, about a 48 percent reduction in tonnage levels from now out to about the middle of the decade.

The other major uncertainty in our baseline or in our projections would be exactly how the European Community implements the common agricultural policy reform, the CAP reform. I noticed coming in there is a briefing that ERS is going to give in the other hearing room this morning, and I would like to hear that. I think, though, the biggest problems that we are running into there are just exactly, again, how they are going to implement it and whether or not they will in fact live up to what they say they are going to do. They will implement an across-the-board 15 percent set-aside program this year. It is our expectation they will reduce that level of set-aside, i.e. probably drop back to about a 10 percent or so set-aside level in future years in order to maintain some stock level that they—desired stock levels. That being the case, that should reduce their levels of exportable supplies.

On one hand we have a reduction in demand coming out of the former Soviet Union. On the other hand, we have a reduction in some of our competition coming out of the European Community, and they more or less offset each other. Our price projections, for example, on wheat are within pennies of where the Congressional Budget Office is and I think we basically would just kind of confirm a number of the factors on the outlook the Congressional Budget Office have come up with. Again, we also assume a continuation of current policies.

If we move over to the Clinton budget package or Clinton budget proposals—and I want to make sure we understand that we have not looked at some of the general economic issues related with that package. We have looked strictly at the changes that are associated with the agricultural functions, i.e. triple base, 0/92, assessment rates, et cetera. As we have looked at those issues, there are three there that we think merit some discussion, and, again, the numbers and the savings estimates that we have come up with are very close to the Congressional Budget Office.

We are coming in at about 4.6, 4.55 exactly, in our savings estimates out of that package over fiscal years 1994 through 1998. CBO, as Eileen mentioned, came in at 4.9, so we are very close to them on their savings estimates. Some of those are differences in baseline and a good part of that is just differences in baseline.

The three issues that I think we really ought to touch on, though, in the package, first, would be 0/92 and elimination of 0/92. Just eliminating 0/92 on its face or 0/92 and 50/92 on its face would actually increase outlays. We are anticipating or our projection, for example, in 1996 would say that there is about 4.2 million acres that should be idled under 0/92, and therefore eliminating that program will require those acres to come back into production.

The way the savings are generated by Congressional Budget Office, by ourselves, and we believe by OMB out of eliminating 0/92 comes from an increase of the set-aside. We have assumed that the set-aside would be increased between 5 and 7½ percent relative to baseline levels and therefore it is basically all producers having to take out a little bit additional land that offsets that change in 0/92 or that increase in costs that would result from eliminating of 0/92.

Triple base on its face, no question about it, does generate savings, and we have no disagreement really whatsoever with CBO in their estimates on eliminating triple base. Where the savings come from, though, again are in triple base and in eliminating 0/92, Congressman, really come from, again, the two parts, increasing the set-aside, reducing the number of acres that we actually provide payments on, and then also a reduction in participation rates. We do end up with a drop in participation rates as the set-aside levels go up. On the crop side, that is really the main factor that we need to talk about.

On the livestock side, and there are a couple of livestock provisions, and I recognize that is not directly under the purview of this subcommittee, but I think it is important for us to touch on them. On the livestock side there is a couple issues that need to be talked about. One is in increasing the assessment rates, recognize that in the dairy sector in particular the way that assessments work in the dairy sector are that they were set in the 1990 Omnibus Budget Reconciliation Act at 11.25 cents, but producers who do not increase their production have the ability to come in and apply for a refund, and then assessment rates on all other producers have to be increased in order to offset that lack of revenue or that loss of revenue.

Currently we are running about a 30 percent refund rate on those assessments, and that is with the 11.25 cents. It is our anticipation that that percentage would go from 30 to 40 percent and that we would have about 40 percent of producers that would try to take steps to not increase their production, which would in turn then require that those producers that did increase their production would have to face that much higher of an assessment rate.

It looks to us as though by the time we were out to, oh, say 1997, 1998 or so that the assessment rate on folks that increased their production would need to run about 30 cents a hundredweight, whereas folks that did not increase their production would not face an assessment at all, so in essence you have almost developed a two-tier dairy program even though I don't think that was the intention, but I think in essence that is what falls out of the program.

Another factor that needs to be talked about is on grazing fees. The intention there was to generate $35 million of additional Federal revenues. We will see an awful lot of regional shifts in production or substantial regional shifts in production which we do not talk about in our national numbers. We would expect that some of those cattle would move off of public lands in the West and, frankly, move to Missouri, and we would be delighted to have them, but as that production shift does occur we would expect initially to get some increase in beef production, some reduction in prices to the consumer and the consumer would save some money in the short run.

But in the longer run we would look for beef prices to run a little bit higher, then for the overall cost of the meat package to go up by about $2.50 per capita on an annual basis. The $2.50 out of $400 or so spent on meat doesn't sound like a whole lot, but when you multiply that across our 250 million population, that translates into over $600 million. So we have generated about $600 million

in additional cost to the consumer in exchange for generating $35 million in Federal revenues. We will just lay that out and let you folks decide the implications of that.

On the net farm income side, which was a question, it does look to us as though farm income would—once the program is fully implemented, we have all the assessments in place, some of the sectors have had time to react, it looks to us as though farm income would fall by about $1.1 billion relative to the baseline. Our baseline would suggest farm income levels up in about the $46 billion range, so there is some reduction in farm income, but again not talking about pulling it back certainly to the mid-1980 levels that we generated some problems.

With that, Mr. Chairman, we will be delighted to take questions.

[The prepared statement of Mr. Young appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. We will turn to the final member of the panel, Dr. Knutson.

STATEMENT OF RONALD D. KNUTSON, DIRECTOR, AGRICULTU- RAL AND FOOD POLICY CENTER, TEXAS A&M UNIVERSITY

Mr. KNUTSON. Thank you, Mr. Chairman. I would like you to turn to the middle of my statement, and I am going to follow the figures in that statement. Figure 1 is an indication of the location of our representative farms.

We maintain approximately 70 representative farms located, with the help of your staff, across the United States, in terms of setting priorities for their locations. We take the FAPRI projections in terms of prices, interest rates, et cetera, and determine at the farm level impacts of those projections. That allows you to look at the impacts on farms in your district.

These farms are put together with panels of producers of your constituents from your districts, and they actually work with us in setting up the representative farms. They verify that the representative farm results indeed reflects their operations. They get all of our reports. If they see anything that has gone awry in our reports, I can assure you that they call us and tell us that this farm no longer represents their operations. Then we go out and work with them in terms of rebuilding that farm to meet their representative specifications.

We have worked with the Economic Research Service of USDA to make sure that our farms are consistent with ERS cost of production procedures. Therefore, we feel fairly confident that these representative farms, indeed, reflect what is going on out there.

Please turn to table 1 where we present the results for the representative farms that are most strategically located for the members of this committee. They include the Kansas farm, the North Dakota farm, and the Washington farm. The Kansas farm is the only pure wheat farm in the set. The North Dakota farm includes barley and sunflowers as well as wheat. The Washington farm includes barley and peas as well as wheat.

Mr. ROBERTS. Mr. Chairman.

Mr. JOHNSON. Yes.

Mr. ROBERTS. Could I advise members that before he goes into the Kansas wheat farm situation or maybe Oklahoma or Texas everybody take a deep breath.

Mr. KNUTSON. Thank you, Mr. Roberts. You will notice that the Government payments decline by 19 to 20 percent for the group of farms. The Kansas farm declines 360 percent in terms of income. Now, you may wonder how it can be 360 percent. The problem is net cash income goes from a positive number to a negative number. In fact, the net income on that farm decreases from $55,000 in 1992 to a minus $30,000 in 1998. So it goes from a profit to a loss position.

You notice that this is the larger of the Kansas farms. The moderate size Kansas farm basically went out of business, and we cannot present numbers for a farm that has gone out of business. That farm was in trouble under the baseline, I might add. The North Dakota and Washington farms experienced declines in net cash income in the range of 24 percent to 37 percent.

Net cash income is a cash flow concept.

Out of net cash income they have to pay family living expenses, principal payments, taxes, and so forth. So there are substantial payments that have to be made beyond the net cash income in order to sustain a farm operation. We use net cash income because these other expenses vary so much by individual farm situation.

The results for feed grain farms are summarized on table 2. These farms experience a range—the Government payment reduction from 18 to 19 percent, about the same as in wheat. The income reduction ranges from a minus 7 percent up to a minus 187 percent, the minus 187 percent being for the Nebraska farm, whose net cash income falls from $27,000 to a minus $29,000 in 1998. So you can see here again there is a substantial income reduction and the farm goes into a negative situation. The large size farm net cash income falls by 25 percent.

For cotton on table 3, you can see Government payments decline in the range of 16 to 17 percent in this case, and a drop in net cash income in a range of 17 percent to 91 percent. You will notice that the South Plains Texas farm experiences a 91 percent decline in net cash income. While not negative, it's net cash income goes to practically zero in terms of net cash income.

Turning to table 4, we present the results for Arkansas and California rice. We get Government payments declines in the range of 14 to 16 percent in this case, and declines in net cash income in the range of 17 percent for the Arkansas farm to 49 percent for the larger California farm.

In table 5 we present a comparison across commodities. What we have done is take the largest producing State for each one of the commodities that we have farms for that are represented on this committee. That includes Kansas wheat, Iowa corn, Texas cotton, and Arkansas rice. You can see that the percentage decline in Government payments is in the same general range, but the wide variation exists in the impacts on net farm income across commodities.

In dairy, which is table 6, what the basic finding in dairy is, is that we don't see all that much income decline as a result of increased assessment, not as much as in the crops, at least. In other words, net income declines from zero for the large California farm

to a minus 12 percent. The other significant finding in this table is that you will notice participants, i.e. those that keep production constant, experience a greater reduction in net cash income than for the nonparticipants. This basically means that for our representative farms they would decide not to participate even with a 30-cent assessment fee. Therefore, it is our conclusion that this additional assessment would not encourage them to hold their production constant. Therefore you would not see much impact on milk production levels nationally as a result of this assessment. Thank you.

[The prepared statement of Mr. Knutson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. I would only comment to Dr. Knutson that if a Kansas farm has 75 percent of its crop base subsidized by the taxpayers instead of 85 percent, and that alone results in a 360 percent decline in income, that is a stunning statement about how overwhelmingly dependent that particular farm is on Government subsidies, but that is a reality that we may be having to deal with.

Let me ask CBO and FAPRI, in particular, Ms. Manfredi and Dr. Young, you may be aware there is a great interest in raising loan rates or enhancing the marketing loan program announced for wheat and feed grain. Could you tell me how would CBO score an increase in the loan rate to the basic rate; that is, 85 percent of the preceding 5-year market average of $2.86 for wheat and $1.99 for corn? If there is no increase, scoring increase, at what level do you think that would occur?

Can I ask you that, Ms. Manfredi, in particular.

Ms. MANFREDI. We haven't done any in-depth analysis of that, but I don't see that it would save money. I see that it would cost money in wheat. There would be an up-front cost in the first fiscal year because loan placements would increase in the summer over what they would have been with lower loan rates. I don't see that it would affect the deficiency payment calculation unless it was some dramatic change in the loan rate. I basically don't see that this saves money. I see that it could potentially cost money because of the timing shift.

Mr. YOUNG. I would think, too, raising the corn loan rate up to $1.99, you are within our projections for corn. Prices for the 1993 crop, for example, are $2.09 a bushel. It would not at all be surprising to end up with at some point in time during the year for corn prices to be down to that $1.99 level for corn. You might end up actually seeing some marketing loan outlays, as well, occurring, and certainly if you have any softening of the prices, you would probably almost definitely have some marketing loan outlays associated with raising the loan rate that much as well.

Mr. JOHNSON. Dr. Young indicated that FAPRI sees an increase in program costs with the elimination of 0/92 and 50/92. I put this to Ms. Manfredi. It doesn't appear that you have a similar finding, although you do mention that ARP's would have to be increased. You also indicate if both 0/92 and 50/92 and the 25 percent flex acres are implemented that the cost saving would be less.

Can you explain in more detail your direction on the issue?

Ms. MANFREDI. We see savings from both of those proposals, but if either of the proposals were implemented independently, the savings would be greater for that proposal than if they were implemented as a combination because there is an interrelationship. We do see savings from eliminating the 0/92 acres because we assume the ARP would be adjusted. From a policy point of view, it may not be.

You are substituting different acres that you are taking out when you require an across-the-board ARP adjustment for the acres that are not being planted under the 0/92 program. We see that the Secretary has the discretion and the ability to adjust production and try to maintain prices where they would have otherwise have been at the baseline level through the ARP adjustment mechanism. So we do see savings from the 0/92 program under this proposal, about 1 billion dollars' worth, and about $2 billion of savings for the flex acres proposal for the last 3 years of our projecting period.

Mr. YOUNG. Mr. Chairman, I don't know that we disagree with that, either. We generated savings out of the 0/92, 50/92 program elimination because we adjusted the set-aside rates. We adjust our set-aside rates in chunks. We will only move it about 2½ percent at a time. You could adjust the set-aside rates so that you generate a basically exactly zero savings out of 0/92 if you wanted to really fine-tune set-aside rates.

Mr. JOHNSON. At first glance it would seem that the elimination of 0/92 and 50/92 would only affect those who use it, but, in fact, it is a back door way to cut payments to all farmers. So would it be better for the majority of farmers to increase the triple base to 30 percent and leave ARP's in the 0/92 50/92 programs alone or reform payment limitations by eliminating the three-entity rule and attributing all payments to individuals and maybe increase triple base by 3 to 5 percent? Any thoughts from any of you?

Mr. YOUNG. You do end up increasing the cost to all producers for eliminating 0/92 by changing that set-aside rate by—increasing it from 5 to 7½ percent, and so all producers end up facing some additional costs or some reduction in program benefits, let's put it that way, by elimination of 0/92. In the analysis we have done, increasing the triple base by about 1 percent would reduce outlays by about $100 million, $90 to $100 million, so every additional increase in triple base from 15 to 16 percent, for example, would generate about another $90 million to $100 million in savings a year.

As one compares that to changing payment limitations or whatever, again that would be something that the committee would certainly need to discuss and debate.

Mr. KNUTSON. Let me add this, if I could. Our results suggest that the commodities are substantially different in terms of dependence on 50/92 or 0/92. For example, rice in Texas and recently in California is very dependent upon 50/92, so under the proposed changes you are going to have differential impacts in wheat and rice, in particular, since they use the 92 programs. So you have to consider that level playing field issue.

The other thing in eliminating the 92 programs is that when and if we move land out of the conservation reserve program, the 92 programs are an option for that land that the Congress might want to consider. I guess beyond that I would say that it is possible to

give you a specific answer to your question in terms of farm level impacts if you would like for the comparative alternatives.

Ms. MANFREDI. I was also going to mention the impact on the conservation reserve program because that will be very important in the outyears as those contracts mature. Whether the 0/92 program is available for the land to go into or not is crucial. If the 0/92 program is not there, then the amount of ARP adjustment would have to be higher as that land comes back in.

Another important point about the 0/92 program is that many farmers use it as a disaster program if they are having weather problems. Rather than plant the land, they will put it into 0/92 and be sure of payments. That would be true of all crops. That is something you can't particularly forecast ahead of time.

Mr. JOHNSON. I turn to the ranking minority member, the gentleman from Missouri, Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman. I have a prepared statement that I would like to submit in the record.

Mr. JOHNSON. All prepared statements will appear at the beginning of the hearing.

Mr. EMERSON. Thank you, Mr. Chairman. All of you have discussed budget projections, but coming from the part of the country that I do I am most especially worried about the inland waterway user fee and the Btu tax. Have any of you done any studies into those issue areas?

The entire eastern boundary of my district is the Mississippi River, and we think that a 500-percent increase in the barge fuel tax is a bit excessive. I would like to know what all of you think about it.

Mr. YOUNG. Congressman, we at FAPRI will be looking at the entire package, the Btu tax, the inland waterways user fee changes, et cetera, hopefully over the next week or so and intend to come back in next week and sit down with staff and discuss the implications of those effects.

Mr. EMERSON. We would very much like to see you. Anyone else?

Ms. MANFREDI. CBO has not done an analysis of that. We have only looked at the revenues that would be generated from those proposals, not at the impacts on farm income.

Mr. YOUNG. Congressman, one reason we have delayed in doing that analysis, we received last Friday from Wharton Econometrics their analysis of its effects on the general economy. Ag, as you know, is a very credit sensitive industry, and as one of the things that certainly we think need to be looked at on the other side would be any reductions in long-term interest rates and reductions in costs to farming because of the reduction in long-term interest rates. We have got that in hand and do intend to come in next week and make that presentation.

Mr. KNUTSON. Let me make one comment with respect to the farm level impacts. Our farms that are irrigated operations like the Nebraska and the Texas feed grain farms are already suffering substantially. I think you can see that from our farm level results. If you put a tax on the energy that they utilize, since they use a lot more energy for irrigation, you will find a significant additional negative impact on those particular farms.

There is a lot of speculation as to whether the farm program changes or the general economic changes have more impact. Once FAPRI completes their analysis we will look at the farm level impacts and be able to provide you with some idea of where the greatest impact is. I expect once again it is going to vary by how energy-intensive the farm is.

Mr. EMERSON. My next question I think you don't have the answer to yet, but I want to ask you to include some analysis that relate to—translate out to the job loss in rural communities. We know there is going to be a loss of farm income as a result of the Btu tax and the barge fuel tax, but what is it going to mean in terms of real jobs for real people in rural America? We need to know that. We need to have good data on that, and I have confidence that all of you can provide it. So please put that into your to-do category also, if you would.

I would appreciate it very much. Thank you.

Mr. JOHNSON. Mr. Volkmer.

Mr. VOLKMER. Thank you very much. First, I want to welcome Dr. Young here today. We have worked for many years together on these issues, and I appreciate his testimony here today. As I understand, you say that by increasing set-aside 2½ percent a year we can offset the 0/92 and the 50/92 impact on production. Is that correct?

Mr. YOUNG. That is correct. It basically generates the same supply and use. If you compare the supply and use tables for corn prices, et cetera, that we have come up with, under this analysis they will look almost identical with those we came up with in the baseline.

Mr. VOLKMER. That gets me, then, to the CBO because I find CBO, in doing their estimates for the future, on page 17 for wheat and rice, CBO has assumed the annual acreage reduction percentage as zero for 1996 through 1998 crops.

Ms. MANFREDI. That is under our current baseline assumption. It does not include the Clinton proposals. The first part of the testimony is the baseline assumption.

Mr. VOLKMER. Now later on when we—I look into the 0/92 and the 50/92, I don't see anything in there. Oh, wait a minute. It says it would also increase ARP's to offset increased acreage in production. You would be willing to say that then?

Ms. MANFREDI. Right.

Mr. VOLKMER. We are in agreement there. There is no question, I think everybody agrees that by moving flex acres from 15 to 25 percent we basically reduce farm income. That is the bottom line, is it not? Anybody disagree with that?

Mr. KNUTSON. Yes.

Mr. VOLKMER. That is the heart of your testimony. Now, what I also find in the baseline and I haven't been able to go through all of your testimony, Ms. Manfredi, and hurriedly looking through it I see in your baseline all the way up to 1998, from 1992 we don't have a disaster, not one. Are you predicting that?

Ms. MANFREDI. No. The way our baseline forecast works is that we assume trend yields; we know that in certain areas, obviously, there will be problems in yields, but on the national basis for each crop we assume trend growth in yields. We also know that for cer-

tain crops there will be major disasters in some years, but we don't forecast a particular year because we just don't have the ability to do that. It is generally a trend growth. It doesn't show either extremely good yields or extremely bad yields in any particular year.

Mr. VOLKMER. I notice that.

Mr. YOUNG. Congressman, the FAPRI baseline will show that as well. We don't forecast disasters.

Mr. VOLKMER. I know that, but I also know in discussion with you, you would freely admit that there will probably be within that timeframe before 1998, there will be either a drought or floods or something in the production areas of this country, correct?

Mr. YOUNG. Almost no question, yes, sir.

Mr. VOLKMER. In that timeframe. So we really can't say exactly what is going to happen. These are just purely estimates based on normal average years, would you say?

Mr. YOUNG. Yes, sir.

Mr. VOLKMER. I would like to get back on the CBO on the dairy. In your baseline you estimate dairy outlays of $254 million in 1993. In later years annual dairy outlays are expected to remain near the 1993 level ranging from $257 million to $307 million. Then later on you say the receipts from assessments in the Omnibus Reconciliation Act of 1990, which our dairy farmers are paying, it says about $200 million a year and from sales equal about half the annual purchase cost of the program.

Isn't that a little bit more than half? If the program is going to cost $257 million or $307 million and we are getting in $200 million, my math tells me that that range is anywhere from about 90 percent, say 75 to 90 percent.

Ms. MANFREDI. What the statement reflects is that the assessments running around $200 million are about half of the purchase costs of the removals, which run around $400 million to $450 million. The outlays of $257 to $300 million in the last year are net outlays. They are made up of several components.

Mr. VOLKMER. Then the net cost—they are paying almost—the farmers are paying almost, at least 75 percent of the net costs of the program?

Ms. MANFREDI. Of the net outlays.

Mr. VOLKMER. Right. The farmers are paying that.

Ms. MANFREDI. Well, that is how they get to the net outlays, right. In other words, the purchases would run between $400 million and $450 million if there were no assessments. The assessments reduce that to about $200 million.

Mr. VOLKMER. Wait a minute. Then you are saying that the gross total cost of the program, the purchase and everything is going to be around $400 million for these outyears?

Ms. MANFREDI. Before any assessments are taken into consideration.

Mr. VOLKMER. But it is not running anywhere near that this year?

Ms. MANFREDI. This year we have it running at $323 million.

Mr. VOLKMER. What if it runs around $200 million? That is what some people are saying now. We are not even at $200 million yet.

Ms. MANFREDI. Then we would reflect that in our next baseline, but our assumption for this year——

Mr. VOLKMER. Does that reduce our baseline for the future then?

Ms. MANFREDI. At that time. Right now we have it in as $323 million.

Mr. VOLKMER. And Dr. Young in your reply to the gentleman from South Dakota, the chairman of the subcommittee, in regard to increasing the loan rates, that would actually end up possibly even costing us money rather than reducing costs because of triggering the market loan?

Mr. YOUNG. That would certainly be one possibility, yes, sir. The closer you bring the loan rate up to where you expect market prices to be, the greater the likelihood then obviously becomes of having marketing loan outlays, which is, again, why we came up with that answer.

Mr. VOLKMER. Now what if we increase—no, that won't help me. Other than what we have seen here, Dr. Young, can you give us any other ideas where to make cuts or Dr. Knutson other than what the President has proposed, do the same thing other than reducing target prices?

Mr. YOUNG. Congressman, it is our task at FAPRI to provide you with quantitative objective analysis and policy options, and that is what we do.

Mr. VOLKMER. I know that. All right.

Mr. KNUTSON. I think it is very hard to cut Government payments to farms that have been fairly dependent on Government payments in the past without affecting their net income, and that is a reality of the situation.

Mr. VOLKMER. What we are doing is we are reducing farm income.

Mr. KNUTSON. Exactly.

Mr. VOLKMER. Thank you.

Mr. JOHNSON. As I understand it there has been no calculation for the impact of lower cost of money that the overall plan may result in at this point?

Mr. YOUNG. No, sir.

Mr. JOHNSON. So that is speculative. The gentleman from Oregon, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Dr. Knutson, it is fascinating the tables you have. I am trying to understand what you are telling us. In the Washington situation with peas and wheat, you are suggesting that the net cash farm income, because of the elimination of the 92 programs and the flex only, you haven't taken into consideration increases in Btu taxes and waterway fees, none of that. You are saying that net farm income would drop 24 to 29 percent?

Mr. KNUTSON. Exactly.

Mr. SMITH. Then I guess the question is, how many farms would fail?

Mr. KNUTSON. We are always asked that question, but I cannot give you an answer to that question.

Mr. SMITH. Sorry, I didn't mean to be mundane.

Mr. KNUTSON. We have looked at the impacts of different debt levels on these farms. Obviously, if you put these farms in higher debt situations, more farms end up failing. Obviously, there is going to be a substantial financial problem in some commodities,

and in some geographic areas as a result of the combination of these proposals.

Specifically, though, with respect to the Washington farm situation, that farm is dependent upon irrigation and is going to be also hit pretty hard, I would think, by the general economic proposals, but I cannot say how many, in fact, will fail.

Mr. SMITH. Tell me, then, have you done any studies to relate these kinds of reductions in net farm income to increased interest rates for farmers—increased interest payments, pardon me, if you assume that it impacts debt?

Mr. KNUTSON. Yes, that analysis certainly reflects increased interest payments.

Mr. SMITH. This does?

Mr. KNUTSON. No.

Mr. SMITH. It does not?

Mr. KNUTSON. This would reflect somewhat lower interest rates.

Mr. SMITH. No, I am talking about debt. I am assuming that a reduction in net cash income impacts debt.

Mr. KNUTSON. Increases debt, oh, yes. And these results do consider the impact on increased debt. In other words, when a farm loses money, like the Kansas wheat farm, that loss becomes part of a higher debt situation in the following year, and the debt continues to snowball. That is why I said some of the farms go out of business because debt snowballs on them.

Mr. SMITH. Are you going to be making any projections on farm failure as a result of your numbers?

Mr. KNUTSON. We can provide some insight into farm failure. I have not included probabilities of survival in here, but we can provide some insight into farm failure. I guess what I would suggest is that when we look at the impacts of the combination of the general economic package and the farm program proposals——

Mr. SMITH. The point here is simply the one that Dr. Young made, I thought, rather interestingly, other than his attempt to move cattle from South Dakota and Oregon to Missouri, he pointed out that this is pennywise and pound-foolish. If you are going to try to raise $38 million from grazing fees and it is going to cost the consumer $600 million to do it, what are you doing?

The point here, if you are going to put a lot of farms out of business by these activities and you would assume that consumer prices would have to go up because you would have a reduction in supply, has there been any studies to correlate your demise of farm income to increased consumer costs of products?

Mr. KNUTSON. Not that I am aware of, no.

Mr. SMITH. Does that follow?

Mr. KNUTSON. It certainly follows, yes.

Mr. SMITH. Dr. Young, comment on a range of questions that I have asked. In other words, I am giving you the big ball here.

Mr. YOUNG. Thank you, Congressman. I think on the food cost side, we have looked, again, as we mentioned on the grazing fee changes and things of that nature, if you move back over and look at the crop side of the picture, however, we are again not calling for that really big a change in commodity prices, in corn prices and wheat prices, et cetera, and so from that aspect I don't know that

on the basic commodities that you would end up driving any kind of changes really in consumer costs.

On the meat side, on dairy, yes, there probably would be some increase in consumer costs from that standpoint.

Mr. SMITH. One quick question, Dr. Young, I wanted to pose to you, and it is one of more philosophy than anything. If we are going to go from $8 billion to $15 billion CBO estimates in costs to the farm program, has anybody looked at increasing the costs of CRP rather than eliminating a lot of these programs? For instance, if you assume that you can buy CRP line for $50 and it costs you $1 in subsidy for a 90-bushel per acre, that is a $90—have any studies been done to determine whether we are not using our money as efficiently as possible, i.e. the CRP expansion?

Mr. YOUNG. It has been quite a while since I looked at that, as I recall, back in 1985, and when CRP was originally proposed. I would have to pull some notes on that to check that. I think you do end up with obviously some supply control effect associated with the conservation reserve program. We did do some work earlier that would take CRP from 40 million acres to 65 million acres, for example. You do end up with a very high risk of some food price inflation if you were to make a move like that, to that degree, i.e. 25 million acres. That would be a lot of land to take out of production.

There would be some food price risk associated with that. I would have to go back and relook at work that we have done to exactly answer that question.

Mr. SMITH. I wish you would do that. It would be horrible to suggest that we ought to keep farmers alive with a chance that food costs might go up. Horror. Thank you.

Mr. JOHNSON. Mr. English.

Mr. ENGLISH. Thank you very much, Mr. Chairman. I would like to follow a little bit on what both Mr. Volkmer and Mr. Smith have discussed.

In your calculations, is there any attempt to try to look at the entire picture or are you just looking at pieces? For instance, the question that I have in mind, we are hearing now that this is going to reduce farm income. It is going to increase debt. It means farmers are going to be out of business, which means they are going to be defaulting on loans. The U.S. Government has a substantial guarantee through the Farmers Home Administration with regard to those loans which are generally speaking the higher risk loans, and, of course, we have direct loans as well.

Has there been any calculation as to what the cost will be to the Federal Government assuming that the steps are taken along the lines of increasing triple base and eliminating 0/92 or 50/92, basically reducing farm income?

Mr. YOUNG. In terms of increased Government cost associated with loan activity?

Mr. ENGLISH. Excuse me?

Mr. YOUNG. Are you talking about the defaults.

Mr. ENGLISH. I believe we owe something in the neighborhood right now it is estimated maybe $12, $13 billion in very questionable loans as far as Farmers Home Administration. I would assume

if we are going to cut farm income that is going to increase that more.

Mr. YOUNG. I would assume, so, yes, sir. We do not conduct that type of analysis.

Mr. ENGLISH. Ms. Manfredi, do you do that over at CBO?

Ms. MANFREDI. No, we don't. That would be a secondary effect and we don't include that.

Mr. ENGLISH. That doesn't count?

Ms. MANFREDI. We don't estimate that because it is uncertain what the impact would be.

Mr. ENGLISH. Does it mean anything? Does that mean anything to the taxpayers?

Ms. MANFREDI. Well, ultimately there may be an effect, but there could be many effects from the budget proposals in terms of where interest rates go and what jobs are created and so forth, and we just don't have the capacity to estimate them.

Mr. ENGLISH. Let me see if I understand this. Basically, you are telling me if we have a substantial reduction in farm income, we have farmers defaulting on the loans, we have the U.S. Government guaranteeing billions and billions of dollars of these loans and making direct loans that there is no effect to the taxpayer? It doesn't mean anything to the taxpayer?

Ms. MANFREDI. We are not saying there is no effect, but we are saying we can't measure the bottom line of what all the changes will be in terms of——

Mr. ENGLISH. Let me ask you, then, you can measure 0/92 you are telling me; is that right?

Ms. MANFREDI. Well, that is relatively direct.

Mr. ENGLISH. Relatively direct. Basically on 0/92 we are paying farmers who don't plant their crop in the same manner as we do those that do, so my farmers in western Oklahoma who choose not to plant a crop, therefore reducing the overall supply, which according to the theory of supply and demand means that you would have a higher market price, which means that you have less Government payment. What we are in effect going to do, then, is to force that farmer to go out and plant his wheat crop, the full amount. We are going to increase the production, which may, in fact, have an impact of reducing the price of that wheat, which means we are increasing the deficiency payment in the interest of eliminating this program; is that right?

Ms. MANFREDI. No, we would assume that the Secretary would adjust the set-aside, the ARP rate, for wheat or whatever the crop is.

Mr. ENGLISH. Why would he do that?

Ms. MANFREDI. To keep prices from falling and to keep ending stocks from——

Mr. ENGLISH. We have been operating off of falling prices for 20, 30 years now. That keeps consumer prices down, does it not?

Ms. MANFREDI. But we don't assume prices continue to fall in our baseline. We assume the Secretary has a certain level of prices and ending stocks that he wants to see.

Mr. ENGLISH. What is that level?

Ms. MANFREDI. Well, for wheat it is somewhere around $2.90 to $3.

Mr. ENGLISH. No, I am talking about the volume. What level is the Secretary trying to hit?

Ms. MANFREDI. What level of prices?

Mr. ENGLISH. No, volume, production.

Ms. MANFREDI. I don't know. I don't make an assumption that he is trying to hit a production volume, I make an assumption——

Mr. ENGLISH. I thought you told me that you assumed the Secretary would increase the set-aside. I assume that if you have made that assumption that you are basing that on something.

Ms. MANFREDI. Right.

Mr. ENGLISH. I assume if you are basing it on something you have called the Secretary of Agriculture and said, "Mr. Secretary, what volume of production are you going to have this year?"

Ms. MANFREDI. No, we haven't.

Mr. ENGLISH. So you are telling me on one hand you have not talked to the Secretary. You have no idea what targets he has. You have no idea what his policy is. You have no idea what he is going to be shooting at; you have no idea whether he is going to increase set-asides, but on the other hand you are not going to make any risky, shaky assumptions with regard to the fact that it might have an impact as far as the taxpayers of the United States are concerned if we have a substantial increase in default of farmers home loans; is that right?

Ms. MANFREDI. Well, our baseline is always done on the assumption of a certain range in prices, a range in exports, and for some crops it is mandated in law. For both rice and cotton there are certain ranges that the Secretary is assumed to hit.

Mr. ENGLISH. What about wheat? That is where I am from.

Ms. MANFREDI. We are assuming the Secretary is trying to maintain prices at roughly the levels they were at in recent years.

Mr. ENGLISH. But you haven't talked to him?

Ms. MANFREDI. No.

Mr. ENGLISH. What makes you think that he is not shooting for volume instead of for price?

Ms. MANFREDI. Based on past history and the way the program has worked.

Mr. ENGLISH. You are talking about the way he voted here in the Agriculture Committee when he was a member of the House Agriculture Committee; is that what you are referring to?

Ms. MANFREDI. No, I am talking about the decisions that have come out of the Department of Agriculture in the past.

Mr. ENGLISH. You are talking about the last administration and the administration before that; is that right?

Ms. MANFREDI. Well, at this point that is all we can go on.

Mr. ENGLISH. I see. You are talking about this administration, this fellow over there in the White House who ran for change, and you are assuming he is not going to change anything at the Department of Agriculture? Is that what your assumption is?

Ms. MANFREDI. I don't know exactly what he will do. I am sure the Secretary doesn't know exactly what he will do.

Mr. ENGLISH. But your assumptions are based on no change from a President who ran on a change? You are assuming that a new Secretary from a different party is going to continue to follow the same policies of the past administration and the administration be-

fore that, and that is what you base your assumptions on; is that correct?

Ms. MANFREDI. Well, we are also assuming that there is going to be an attempt not to have costs increase, and therefore that would be counter to having——

Mr. ENGLISH. Why would you make that assumption?

Ms. MANFREDI. Because of the deficit reduction package that we are dealing with. We are assuming that there is an attempt to keep costs of the program from going up.

Mr. ENGLISH. Assuming—but at the same time we are not assuming any costs from all those defaulted loans from Farmers Home?

Ms. MANFREDI. We are not saying it won't happen. What we are saying is we don't know what the exact relationship will be.

Mr. ENGLISH. That is the same kind of thing you did with Mr. Volkmer, assuming there is not going to be any disasters over the next 4 or 5 years; is that right?

Ms. MANFREDI. We always assume there will be problems in certain areas, but we are talking in our baseline about an average yield. We don't include the effects of a major disaster because we wouldn't know what year to put it in if we did assume it.

Mr. ENGLISH. What normally has been the cost of the disaster program over the last 10 years? What is the average cost, year in and year out?

Ms. MANFREDI. Probably about $1 billion a year. We can't put that in our baseline because we can't assume legislative activity. We can't assume an appropriations bill in the future that would provide for disaster activity.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. JOHNSON. We will have an opportunity to follow up on that at some other point.

The gentleman from Kansas, Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

Welcome to the subcommittee, Ms. Manfredi. I am making an assumption that you are enjoying yourself. It is always interesting to hear about Mr. English's baseline. I want to disabuse the committee for an unintentional inference that perhaps the chairman has indicated in regard to my beleaguered wheat farmers, my single commodity farms out there in God's country. If we have an 85 percent subsidy on a crop and now the concern is that—and we have come through some real difficulty, and now the concern is we are moving down to a 75 percent subsidy, and the inference is that somehow we devise a farm program to target folks who can make it as opposed to those who can't.

Let me point out that on a 1,000-acre farm usually that wheat base is 600 acres. Then if you take 15 percent off on the flex acres that are not subsidized, you are down to 507 acres, and then if you go a 7 percent set-aside that we have been discussing here, say with Mr. English, you are down to about 400—no, I beg your pardon. Let's first go back and increase the flex acres up to 25 percent, then you are down to 450 acres. Then you are down with another 7 percent set-aside or acreage reduction program to 419 acres, so suddenly that 1,000-acre farm is producing on 419.

Lord knows we are trying. We even have some cotton down in the southeast part of my district. We are trying to become diversified. I hope we are not trying to devise a program or say something that these farmers have been relying entirely on subsidies, and that we are going to disenfranchise the high plains or the high plains say wheat producer. Where is this farm, Ron, that you are talking about?

Mr. KNUTSON. This farm is on the Oklahoma–Kansas border not too far from Wichita. I think it is in Congressman Glickman's district. Sumner County, I am told.

Mr. ROBERTS. Oh, well, that is all right then. Shucks.

I think it is in Cowley County, which is in Dan's district, but let the record show that the High Plains wheat producer has been struggling through a rather difficult time and I just wanted to allude that fact to the chairman. We are trying to become more diversified. If you practice summer fallow, then you are down to 500 acres and that farmer will probably have about 10 acres left after we have the package that we are talking about.

We would sure get a lot of price for 10 acres worth of wheat. I am upset is what I am, and I had intended on asking some short pertinent questions to build up the record here on what we think the practical effect will be on the Clinton budget, and then I read the blue book that Dr. Knutson held up, and I have a concern that after this is through this is going to be the black and blue book in regard to the wheat producer.

It is sort of like after I read the testimony, Ron, holy mackerel and gee whiz and I don't believe this. Is the same situation applying to Mr. English and Mr. Sarpalius in terms of a single commodity wheat farm that might have a little sorghum, they might have a few hogs or they might try to run some cattle? Are these figures pretty much consistent all throughout the High Plains?

Mr. KNUTSON. Yes, you can turn to the feed grain farms in the testimony. The moderate size Texas farm has 33 percent wheat. It is not doing as badly as Kansas farms, but it has a 76 percent reduction in net cash income on the smaller 1,600-acre farm. It also goes from a positive to a negative net cash income. The more wheat on a farm, the more problems that are encountered. This farm is also adversely affected by irrigation costs.

Mr. ROBERTS. I have 66 counties full of wheat. I have more wheat in my district than any other State, and what you are saying is that this program, from $6,100 in the baseline to a loss of $15,800 under the proposal, are you factoring in some debt? This is about a 20 percent cut here, and I am just wondering if the debt structure is not such that this is part of your figuring here.

Mr. KNUTSON. No. The debt structure is relatively low, I think about 20 percent on these farms.

[EDITOR'S NOTE.—Revised statement follows:]

Mr. KNUTSON. No. The debt structure is relatively high due to recent low incomes, I think about 50 percent on these farms.

Mr. ROBERTS. So these are not struggling producers. This is $15,800 for a farmer who, up to this point at least, was trying to make a living?

Mr. KNUTSON. Yes, exactly.

Mr. ROBERTS. Great Scott.

Mr. KNUTSON. I would imagine, sir, that your mail is reflecting, in the case of wheat, some problems.

Mr. ROBERTS. Well, they have started to pencil it out a little bit. What happens when you have a budget resolution, everybody wants to be fair, everybody wants to give the President a chance, everybody wants to see something done, everybody is tired of the gridlock, and so they say, let's wait until we take a hard look. We don't even have the figures, as I indicated earlier.

This is a blueprint for disaster in terms of the wheat producer, and it isn't very good for cotton as well. You haven't even figured in the Btu tax; is that correct?

Mr. KNUTSON. No, we have not.

Mr. ROBERTS. Let me ask you about that. I am going to ask for a little indulgence on the part of my colleagues here because I see that I am already over time. We have done a study on the Btu tax. It is not precise, but basically let's stick to Kansas and Nebraska here.

I have some figures for the Northwest, Midwest, California, west Texas. Seven hundred acres of wheat and 300 acres of corn, my estimate of $900 to $1,300 a year due to the Btu tax, does not include corn drying costs, does not include the cost of irrigation, does not include transportation, pesticide, fertilizers, and other inputs. We tried to factor that in there, said somewhere between $1,300 and about $2,000 a year. Is that about where we are in terms of your experience?

Mr. KNUTSON. I must say, Congressman, that I would just as soon wait a week before we come up with the numbers.

Mr. ROBERTS. When will that be forthcoming?

Mr. KNUTSON. I would think in about a week, the end of next week, Bob, do you think?

Mr. YOUNG. I think that is what we are working toward, Congressman.

Mr. VOLKMER. Will the gentleman yield just on that?

Mr. ROBERTS. Yes, I would be happy to.

Mr. VOLKMER. Does that include the input costs?

Mr. YOUNG. That is our intent, yes, sir.

Mr. VOLKMER. So for natural gas, et cetera, and the hydrogen and nitrogen?

Mr. YOUNG. Yes.

Mr. ROBERTS. I am going to sum up here very quickly. I am shocked by this report. I thought it was pretty rough, but I didn't assume it was this rough. You haven't even factored in the Btu tax here. You mention crop insurance.

If Mr. English were back he would tell you if you go a countywide average it is not going to be successful and the chances are we will go back to just a straight disaster program where every even numbered year we pour the money out for obvious reasons. Also, 0/92, 50/92 doesn't work in terms of any budget restrictions unless we increase the set-aside.

Mr. Volkmer was very clear in that regard. Every time we increase the set-aside, our competitors overseas increase their production by more than we set aside. We continue to be the residual supplier. We have the $100,000 situation here. You pointed out that the farmer is going to have to take their tax returns into the

ASCS office. Nobody here has talked about the fact that if, in fact, the large producers leave you have more production and your deficiency payments increase. Is that a fair assumption?

Mr. YOUNG. Again, I guess I would go back, Congressman, to say that under our analysis, anyway, it looks to us as though the corn prices and wheat prices, for example, would be about the same under this analysis that they would be under the baseline.

Mr. ROBERTS. What about the production risks in terms of the young farmer, now he can't spread that out to your so-called non-farm-rich people who can no longer invest in agriculture because they can't participate in the program. I know we are going to go to cash rent rather than crop share.

Mr. YOUNG. Which we talked about in the testimony.

Mr. ROBERTS. But that risk of production, then, would be shared by that producer and not in terms of an outside investor, which increases the pressure on that producer. The last thing, you mention GATT, Russia, and NAFTA. We don't have the votes on this committee to pass NAFTA. We just had Mr. Kantor here, and I would suspect a majority on this committee would not vote for NAFTA. I would.

In GATT there is no way we are going to get a GATT agreement with France horsing around with a new government and the new Secretary of Agriculture over there, the designee, saying, no way, I don't see much prospect in that, and Russia, Secretary Espy, and the chairman and all of us have been trying to push existing sales, just existing sales, already have contracts, and we are not getting anywhere because of an interagency task force of 11 different agencies plus the unbelievable situation over there in the former Soviet Union.

Now, you add all this up plus the Btu tax, how are we going to make it? How is the farmer going to make it through this? I don't get it.

Mr. YOUNG. Congressman, you do have—again, I am not trying to gloss over the results, but I think you will find that there are some producers that do, in fact, still make it. We will probably have some producers in, even in Kansas that would probably still make it.

Mr. ROBERTS. Well, we have been going through a very difficult time. We always persevere, I understand that. If you don't have debt load, if you inherited the farm, if you didn't lose 60,000 head of cattle during the winter storm that we just recently had, if we didn't have the price go from $3.50 down to $3 here because of the situation with Russia, I would agree with you. If the price was around $4, why, we can survive anything, including what comes out of Washington where everybody thinks it is their grain.

I am making a speech and I am getting tugged by staff here to calm down, so I will do that, but I would be very interested in your Btu tax thing, and let's gets it back to the individual producer, if we can, in terms of the figures.

I yield back, Mr. Chairman.

Mr. JOHNSON. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. Ms. Manfredi, I apologize for being late and missing your testimony, but I was trying to understand this, and I will read this later, but these assumptions

in here, did you cover why you chose these? For example, in the case of wheat, why your 1996, 1997, 1998 you are showing no set-aside?

Ms. MANFREDI. That is based on our assumptions of the supply and demand situation and the prices and what the Secretary would be aiming at. In other words, we are assuming the ARP would be as low as possible if prices are in a reasonable range.

Mr. PETERSON. So the price triggers that in?

Ms. MANFREDI. Right.

Mr. PETERSON. Some of us have sent a letter over to the Secretary asking him to increase the loan rates. Have you run any numbers on what the impact of that will be if the Secretary used the discretionary authority to raise the loan rates to the maximum amount that he can?

Ms. MANFREDI. I think there is a potential budget cost problem in wheat in terms of the fiscal year split because there would be more loan placements in the summer, and there would be higher loan placement costs in fiscal 1993, so you would actually be raising your fiscal 1993 costs even though those loans may be repaid in other years. You would be raising the costs that would show up in fiscal 1993.

Mr. PETERSON. I understand that. But has anybody run the numbers? I guess that is my question. Have you? If you haven't I guess I would like to request that you do that so we could see what the impact would be if the Secretary used the maximum authority on the loan rates? Have you done that at this point?

Ms. MANFREDI. No, I have looked at it very simplistically but I haven't done any serious analysis.

Mr. PETERSON. Would you be able to do that for us?

Ms. MANFREDI. Certainly.

Mr. PETERSON. I think that would be helpful. Also this whole accounting situation, is it still the situation over there where you don't count when the loan is repaid, we don't get credit for that. That goes into the general Treasury? Is that still how your——

Ms. MANFREDI. No, that counts.

Mr. PETERSON. It is just that it is in between fiscal years.

Ms. MANFREDI. The higher placements would happen in the summer, which would be an outlay in fiscal 1993. The repayment would come in fiscal 1994, but you would also have higher outlays in fiscal 1994 with more placements.

Mr. PETERSON. But anyway, this analysis that you give us will show us these numbers?

Ms. MANFREDI. Right.

Mr. PETERSON. Why in your—I don't know whose paper it is, but why does it show that the Kansas and Nebraska wheat farmers get hit so much harder than the ones in my area and North Dakota?

Mr. KNUTSON. The farms in your area are diversified operations. That has a significant impact.

Mr. PETERSON. Because of flex acres, they are better utilized?

Mr. KNUTSON. The crop mix on the North Dakota farm is wheat, probably about two-thirds barley and sunflowers, and the sunflowers generate a substantial profit, so sunflowers are a profitable crop in your cropping situation, just like in Washington the peas are a profitable crop.

Mr. PETERSON. If you took a farmer in our area that had mostly a wheat base, you would see the same kind of impact?

Mr. KNUTSON. You would see exactly the same.

Mr. PETERSON. It is just that they are all mixed in with everybody else. That is what I was trying to understand.

Mr. KNUTSON. Yes. The fact is in Kansas they really don't have many options in terms of production. You are fortunate in having more options.

Mr. PETERSON. In terms of the overall impact, I mean, you are running these numbers, but isn't it fair to say—I don't know who would answer this—that when you boil this thing down what we are really looking at is a reduction in the baseline spending that is going to be available when we do the 1995 farm bill. Isn't that really the bottom line?

Mr. YOUNG. Exactly.

Mr. PETERSON. And why get all whipped up about this stuff, because I think it is pretty obvious that our current program is not sustainable, that we are going to have to make a major change in farm policy. It is just not working, and the money isn't going to be there.

Mr. YOUNG. It does end up with a reduction in the baseline, you are absolutely right, Congressman.

Mr. PETERSON. I would like to see some of you start looking at some other alternatives. We have been on this treadmill, and we are going downhill instead of uphill. I don't see how we sustain this if we are going to be told that we are going to have less money. I think we are kidding ourselves. To say that this program is going to work if it is similar to what we have been living under in 1985 and 1990 with less money, I don't see how it happens.

Mr. YOUNG. I do think the issue on increasing set-asides versus changing a triple base number, for example, is almost pointed out in some of the differences in your numbers versus those of Mr. Roberts, for example. Triple base does allow a producer to decide what it is he or she is going to do with those extra acres. If we haven't changed the flexibility provisions and a producer can only plant wheat on his wheat base or only plant corn on his corn base, then you are absolutely right, the producer is very tied in to how the farm program changes and how payments under that farm program change.

If the producer can decide to go do something else, then he at least has another option.

Mr. PETERSON. But even if you have the ability to flex out, given the commodity prices it is just not working. I am here to tell you that in my area people are not making it, and it is now not only the crop farmers, it is the dairy farmers. I mean, we are in danger of losing this whole generation of farmers if we don't do something. I have no confidence, zero confidence in what we have been doing. It is not working, and I don't know what the answer is, and we are trying to—we are having meetings back in our district, and I am finding every expert I can talk to try to figure out where we might go, but I think what this whole budget says to me is that we have to look at some dramatic change in the way we do business.

Mr. YOUNG. I think, Congressman, too, in our testimony if you will look toward the back in some of the conclusions we came to

it does end up with some fairly significant—or this entire budget path that we are on does have some fairly significant conservation issues as well, or implications as well.

Mr. PETERSON. Some of us feel like the reason we are being paid by these farm programs is strictly to comply with the conservation and environmental regulations. That may be where we end up if we keep on this path. Maybe that is the solution. They are going to pay us three times as much as they do now to comply with the environmental regulations so we can survive.

However we do it, we have to get more farm income out there. One of the things that I have been pleased with the new Secretary is that he says he is committed to raising farm income, and we are looking forward to working with him to do that. Thank you.

Mr. JOHNSON. Mr. Volkmer.

Mr. VOLKMER. Yes, I just have a quick question or two. When you were figuring the farm income impact, we have had testimony here from FAPRI that 0/92 and 50/92 programs have to be set aside, set-offs, offset by the increase in ARP. Did you take into consideration that increase in ARP in determining in say 1996, 1997, 1998 timeframe the loss of income to the producer?

Mr. KNUTSON. Yes, that is in my—are you asking me?

Mr. VOLKMER. Yes.

Mr. KNUTSON. Yes, that is in mine.

Mr. VOLKMER. Along with the 15 to 25 percent on the——

Mr. KNUTSON. Yes, it definitely is.

Mr. VOLKMER. On the flex acres. Now, I just want to clear that up and make sure those are included.

Dr. Young, on page 10 of your testimony you say right before the conclusion it would also take only a modest increase in market prices for the difference to erode completely away. That is the participation rates on the corn, producers participating is declining to 62 to 69 percent from the current 67 to 75 percent.

Now, you mean they would go back up, that people would get back in the program?

Mr. YOUNG. No, that is not what we are saying. Under the Clinton proposal, if we were just to extend current law, our analysis would suggest that the difference between producers who were in the program versus producers who were out of the program and corn, that that average per acre return difference would be about $31 an acre. If we were to implement the Clinton proposals, then that difference between someone in the program versus someone out of the program would drop to about $18 an acre. So what I think what our analysis would show, then, is that participation in the program would move from that 67 to 75 percent range down to 62 to 69.

If market prices would move much, and at $18 an acre at, say, 20 bushels an acre, it wouldn't have to move very much in order for that $18 an acre difference to be totally wiped out, and therefore a producer would be making just as much money in the market as he would in Government programs.

Mr. VOLKMER. Which means they would get out of the program?

Mr. YOUNG. Exactly.

Mr. VOLKMER. Which means we would probably have a lot of people, very little participation in the program?

Mr. YOUNG. That would be our conclusion, yes, sir. Again, there are conservation implications associated with that decision.

Mr. VOLKMER. That is right.

Thank you very much, Mr. Chairman.

Mr. JOHNSON. The gentleman from Iowa.

Mr. NUSSLE. Thank you, Mr. Chairman.

I participated yesterday in a meeting—a panel discussion about the future of agriculture. In fact, Mr. Laurie is here from Michigan who also participated in that discussion. He will be testifying later on. I welcome him to the committee.

Part of our discussion was to go through a broad range of possibilities for the future, along the lines of what my colleague has indicated, Mr. Peterson, that maybe we have to go back to some of the basics and talk about the future and maybe discuss this in terms of what money is available and then devise a program that works around that dollar figure so that we are not reactive to the budget, but that we are actually proactive in our policy determination.

Under that, I have to say I am very impressed with the work that you have done, both Mr. Young and Mr. Knutson, in your universities in developing this kind of a model. I am wondering how it works for my purposes so that we can ask questions about different policy changes adding new variables; a farm with high debt, a farm with low debt, a farm maybe a little bit smaller farm, larger farm, et cetera.

Is this on a computer so you can play with the figures or in almost instantaneous or close to that reporting or is this something that has to go back to farmers and be chewed over and takes a while to get back?

Mr. KNUTSON. Within constraints we can take the analyses of FAPRI in terms of the impacts of a policy on prices, on Government payments, on interest rates, and input costs, et cetera, et cetera. We put them into the farm simulation model. We do not have the flexibility of changing the size of the farm. The size of the farm is set by the panels. We have two producer panels normally, a moderate size farm and a large size farm.

The moderate size farm is designed to represent a typical family farm in that region of the country, full-time. It is not designed to be a farm where the wife works off the farm and the husband has a part-time job in town as well. It is not that kind of a farm situation. It is a full-time family operation. The larger one is two to five times larger merely to get a reflection of economies of size in agriculture since it is our position that these economies are very important. I think you can see that in the results here.

We can take in cooperation with FAPRI most proposals and look at the farm level impacts of those proposals. And we have a fair amount of flexibility except when it comes to you saying we would like to have this for a farm half as large. Then we would have to have a new panel to do that.

Mr. YOUNG. Congressman, on the macroeffects or i.e. agriculture as a whole, U.S. agriculture as a whole or world agriculture as a whole, which is what we look at, the models are basically put together. We have probably got upwards of a 1,000 different equations in the system at this point in time, most of which are behav-

ioral equations. We have dropped back and looked at the data to try to estimate, for example, on participation rates in farm programs, how big does that price gap have to be or that return gap have to be in order to generate 85 percent participation, for example. That is something we spend a lot of time trying to estimate.

We could talk about changing ethanol programs. We can talk about changing export programs. We can talk about changing any number of items, and again come back and generate a price stream estimate for exports, estimates of participation rates, et cetera, estimates of Government cost, build that up into farm income.

Our models are put together now, and I would say we have done—I have been very pleased with the work we have been able to do over the last year. For example, change in the crop sector will directly affect changes in the livestock sector. In the past we have had to pass that at least through an analyst and have a couple folks sit down and say, well, I think it is going to do this; I think it is going to do that in order to crosscheck the models.

The models are now developed to the stage that we can have those effects appear directly. So, for example, in the analysis that we put together for you so far, the effects of the grazing fee changes, for example, do reflect—or do show up in our fee demand changes for corn. We have been able to get those kind of interrelationships built into the system. We have not, as was discussed earlier—it becomes a very difficult data issue and data access issue to take those effects and talk about changes in farm numbers, to talk about changes in debt loads, et cetera. That is one of the main reasons that we went to the representative farm procedure. That was what, about 1989, 1988? 1988 or 1989 or so in order to try to get farm level impacts associated with these macropolicy changes that we are talking about. It would require getting into basically a lot of data that USDA has that they have restrictions on release of that data, and I understand those restrictions. I have no problems with those restrictions. You want to be able to maintain confidentiality.

You would almost have to have the entire farm cost and return survey data base available to you in order to generate changes in farm numbers, in order to know all the distribution of debt, et cetera, which would require almost having access to individual farm records.

Mr. KNUTSON. But I would say this, that the USDA, the Economic Research Service has been very cooperative with us.

Mr. YOUNG. Very.

Mr. KNUTSON. If we asked for average debt levels for the lower third, the middle third, and the upper third of farms, they will give us that for an area that they consider to be statistically reliable, and, in fact, we do have that information. Next time we come in we will put a little bit more emphasis on the impacts of different debt levels on these farm results.

Mr. NUSSLE. Just two last questions, real brief. My time is up. You mentioned on the front here it says, this is a working paper designed to provide economic research, timely basis, it is an interim product of a larger project.

First of all, what is that larger project is my first question, and the second question is if I have—if I have a question in the future,

let's say I want to, I don't know, whatever it might be, eliminate a program. I have designed a new program. I want to see the effect that that will have. How do I address my questions to you or my proposal? How do I do that to your organization so that it can—so that I can get the information and share it with my colleagues?

Mr. YOUNG. Congressman, the procedure we use at FAPRI, and we have had this for some time, if you have a particular policy question, and let's face it there are times when folks are trying to come up with ideas that you are not really sure what you want to do yet, and let's understand that happens. We will go into basically a confidential mode with you, and we will sit down and talk with you about what some various options might be or what some of the effects of the options would be that you have talked about and we will release that information to no one else.

We will provide that information to the folks down at Texas A&M, and we can talk about farm level impacts associated with that. When you decide that you want to——

Mr. NUSSLE. I should use this address and this phone number that is on here?

Mr. YOUNG. If you are talking about changing a policy, no, I would go to the one that has the FAPRI, the other one, the stapled version. We can talk about changing policy options.

Mr. NUSSLE. OK.

Mr. YOUNG. We would then provide that information to the folks at Texas A&M and they would develop, then, the farm level implications associated with that. Now, let me also say if it is your intention to then take the results and say see how great my program is, we would also make sure that our analysis, our complete analysis is released to everyone. Again, we want to make sure that everybody understands that there are good and bad points associated with almost any program, which we have done, we think, today.

Mr. NUSSLE. But really in order to reinvent the wheel you are going to have to—assuming that is what you want to do, you are going to have to be able to dive in in almost a confidential mode and see what the effects might be, so I appreciate that.

Mr. YOUNG. Yes, sir.

Mr. NUSSLE. Thank you, Mr. Chairman. Appreciate you giving me a few extra seconds there.

Mr. JOHNSON. Thank you. I think it is noteworthy that USDA's numbers indicate that the medium-sized operation with sales between $50,000 and $100,000 in ag products per year earns over half its income off farm under the current situation.

The gentleman from Texas, any questions for this panel?

Mr. STENHOLM. Being late, no questions, Mr. Chairman.

Mr. JOHNSON. I want to thank this panel for your help. It has been very insightful. We will continue to be working very closely with you. I want to emphasize Mr. Peterson's request for scoring on the loan issue. I think that is going to be important for this committee.

We will go to the second panel. The panel consists of Mr. Ray Chancey who is national office director, American Agriculture Movement in Washington; Mr. Richard Gady, who is with the National Grain Trade Council of Omaha; Mr. John Garland, who is vice president of the National Farmers Organization of Dale, Indi-

ana; Mr. John Laurie, who is president of the Michigan Farm Bureau, and a member of the board of directors, American Farm Bureau Federation, from Cass City, Michigan; Ms. Denise O'Brien, who is vice president of the National Family Farm Coalition in Atlantic, Iowa; Mr. Ron Rosmann, who is a member, Center for Rural Affairs, representative of the Sustainable Agriculture Coalition from Harlan, Iowa; and Mr. Lee Swenson, who is President of the National Farmers Union in Denver, Colorado.

I want to thank the members of this panel for joining us today. It has been one of our goals to secure the broadest possible range of input as we deal with some very fundamental questions concerning farm programs, particularly in light of the fiscal pressures we find ourselves under. Again, I would say to the members of this panel, as I did to the first panel, that your entire written statements are received for the record so that all members of this committee and our staff will have them for their review and you should feel free to summarize, extemporize any way you want with your statement. We will be trying to abide by the 5-minute clock. The red light will go on at the termination of 5 minutes, and we will hold both the members of this committee and the panel members to that not, overly rigidly, but still when the red light comes on be thinking of ways to wind down your statements and we in the panel will be looking at ways to shorten our questions at that point.

So with that we will proceed on, and we will begin with Mr. Ray Chancey.

STATEMENT OF T. RAY CHANCEY, NATIONAL OFFICE DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. CHANCEY. Thank you, Chairman Johnson, other members of this subcommittee. My name is Ray Chancey. My family and I run a small farm in Dayton, Texas. Recently, I have taken the job as national office director here in Washington, DC for the American Agriculture Movement.

I am privileged to be here today. We hear a lot about budget cuts and savings, and anytime the farmer hears the words "budget cuts" anymore, we automatically wince and grab our pocketbooks because we have been taught through history that we are about to have to save more money for the budget. We used to think that savings meant the amount of money that we could put away for a rainy day, after we had met all our other obligations. But we have come to learn from the budget standpoint, at least, savings means the amount of money we are going to have to somehow learn to live without.

The 1990 budget agreement saw that we had to come up with some $13 billion in savings. A large portion of that came right out of the pockets of the farmers. And, while we are still trying to learn how to cope with those savings, we are told we are going to have to save some more. Folks, we're just about to be saved out of business.

The American Agriculture Movement earlier this year announced that we felt like the President's economic package was a step in the right direction, and certainly anytime we hear a President include agriculture in a statement that he is going to try to treat all sectors

of the economy fairly, we certainly figure that is a step in the right direction. But there are aspects that we feel are contrary to the ideal of fairness.

The President has called on farmers to sacrifice more, and yet he has offered us no stimulus or investments in return. While we are willing to do our fair share to assist the President in 1993, we have to ask that any additional cuts in the budget reflect the fact that, as a result of the 1990 farm bill, we have already sacrificed percentagewise more than any other sector of the economy.

To ask us to sacrifice more is one thing, but to ask us to again sacrifice more than anybody else is unfair. The President's package has called for the elimination of the honey loan program, singling it out from all other farm programs. It is the AAM's position that no farm program should be eliminated because all of them have a real purpose, serve a real need, and all of them have merit.

They help to stabilize our markets, and without them undoubtedly many of our family farmers would be forced out of business. To eliminate any farm program would be a disservice to all of agriculture and to the American consumers who are the real beneficiaries of the farm loan programs we have today. There wasn't anything that I heard in earlier testimony today that discussed how the farm loan programs do actually benefit the American consumer.

To reduce or eliminate these farm programs is actually defeating the purpose for which they were designed, and that is to stabilize price and supply to the American consumer. In the world, we in the United States have the highest quality of food for the lowest overall cost. This is truly a testimony to the effectiveness of the farm programs we have. Certainly, we realize that some aspects of our farm policies need to be improved. But overall, farm programs have proven to be a good investment in the stability of the U.S. economy, and ultimately the world's economy.

In response to the question concerning the possible increase in user fees or excise taxes, on March 2 of this year the AAM released a study entitled, "Excise Taxes and the Rural Taxpayer." This study shows how excise taxes, or user fees, are very regressive and are an unfair tax on rural Americans in general.

Any increase in this type of hidden tax will only intensify the regressive tax burden on rural America, and for this reason the AAM is opposed to any increases in user fees. In the written part of my testimony I have included the executive summary, and I am going to skip that at this time, but if any of you would like to have additional copies of the excise tax study, we do have them, and I will make them available to you.

In closing, agriculture is this country's greatest natural resource, and it is very important to our economic well-being and our strength as a nation. Family farmers are the backbone of this great country, and we are being forced out of business at record rates. The survivors are in serious economic danger.

In order for farmers to stay in business, we have to be able to receive a fair return on our investment and time. We realize that the Government needs to reduce its deficit spending, and we are prepared and committed to continue to do our fair share. But when you go about your job of apportioning cuts in the various Govern-

ment programs, we are asking you to keep in mind that the Government has already made cuts in the farm programs to the point that the remaining family farmers are just barely getting by.

Thank you for your time.

[The prepared statement of Mr. Chancey appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Chancey. We would go then to Mr. Gady.

STATEMENT OF RICHARD L. GADY ON BEHALF OF THE NATIONAL GRAIN TRADE COUNCIL

Mr. GADY. Thank you, Chairman Johnson, and members of the subcommittee. I am Dick Gady, vice president and chief economist for ConAgra, Inc. based in Omaha, Nebraska. I am appearing before you today on behalf of the National Grain Trade Council. In our testimony I will cover briefly the economic outlook, policy steps that could affect the demand for agricultural products and the impact of the President's economic package on agriculture.

The U.S. economy is in a cyclical recovery, and we see several promising signals for the years ahead. However, the world economy is lagging the United States and tends to be a drag on United States export opportunities. As we look at agriculture, for example, world grain use has grown little over the last 6 years, but even so has still exceeded production in four of those years.

The picture for U.S. commodities very briefly looks like this: Wheat production and supplies should be up modestly in 1993 and 1994. Wheat demand, in terms of total use, will be down a little, so it appears wheat stocks may build modestly.

Corn production should be down about 12 percent from last year's record, and total supplies will be about the same as a year earlier. Usage should be up on the basis of growing domestic demand. Soybean production may be down about 9 percent. Soybean usage may fall about 4 percent because of declining exports.

I would like to say we are very encouraged by the administration's support of bringing NAFTA and GATT to a successful conclusion. Both of these agreements, we feel, will clearly enhance demand for U.S. agricultural products and put more dollars in the pockets of U.S. producers.

Other positive steps would include a successful resolution of the former Soviet Union debt impasse, maintaining most-favored-nation status with China, and recognizing the importance of value-added agricultural exports. I have included more detail on these plans in the formal statement.

While these steps would enhance the demand for U.S. products, there are two prerequisites to meeting demand—adequate supplies and competitively priced products. It is important that we guard against steps that would threaten either one of these prerequisites. There is a strong temptation to raise loan rates when farm prices are weak. It would be nice if solving lower farm income problems were as simple as raising loan rates. However, the experience of the 1980's has demonstrated that any positive impact of higher loan rates on farm income, particularly in a global economy, is transitory at best and can result in a severe downward income and production adjustments as ARP's are raised to attempt to limit the

budget exposure. The United States, in effect, unilaterally withdraws from the world markets. Therefore, ARP's in the long run do not benefit producers and are extremely negative for the agribusiness industry that employs nearly 20 percent of the U.S. workforce. Jobs are negatively impacted, particularly in the Nation's rural infrastructure.

Turning to the President's economic package, the National Grain Trade Council feels somewhat akin to the old adage of being between a rock and a hard place. While council members strongly support the goal of reduced Federal spending and bringing budget deficit under control, in terms of farm policy, however, we are concerned by the assumption that the 0/92 and 50/92 programs would be replaced by higher ARP's. At least with 0/92 and 50/92 programs a farmer can choose to use those programs when it is in his economic self-interest. With higher ARP's, Government dictates that decision for all farmers who wish to comply with the program. We have much more confidence in farmers' decisions to plant or not plant rather than Government dictating those decisions.

We are also concerned by several of the user fee proposals in the budget. With user fees all that is occurring is a change in the funding source, not a reexamination of whether the service is needed in the first place or whether it can be accomplished more efficiently. The effect of user fees will be to add to handling costs, will raise food prices, and hurt exports and jobs. In the end costs will be shifted from the taxpayer to the food consumers, and farm producers making the outlays much more regressive than they are currently.

The waterway user fee proposal would increase the per-gallon tax on diesel fuel for commercial navigation from 19 cents to $1.19 per gallon. This 525-percent increase would mean an added cost of about 10 cents a bushel for corn, wheat, soybeans, and other grains moved by barge for export.

I might point out that the Senate by an 88 to 12 vote adopted a resolution to not accept any increases in barge taxes.

The President's economic package would also assess a transaction fee of about 14 cents per round turn on futures and options to fund operations of the CFTC. We believe a transaction tax would be counterproductive. The fee could damage the competitiveness of our U.S. exchanges and threaten market liquidity. Furthermore, the industry already funds compliance and surveillance activities for self-regulatory organizations.

In closing, the longer term economic outlook for agriculture is positive. As the world emerges from recession and the chaotic effects of the collapse of communism in Eastern Europe and the former Soviet Union start to correct itself, world grain use should start growing vigorously again. In addition many households, especially in Africa, Asia, and Latin America, still cannot afford to eat enough food. The council believes that the policy areas we have outlined will help the United States be in the position to meet this challenge.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gady appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Gady. We will go then to Mr. Garland.

STATEMENT OF JOHN GARLAND, VICE PRESIDENT, NATIONAL FARMERS ORGANIZATION

Mr. GARLAND. Good morning, Mr. Chairman, members of the committee. On behalf of the National Farmers Organization, it is a privilege to come before the committee this morning. I am John Garland, national vice president of the National Farmers Organization, and before I make a few points of the written testimony, I would like to review and possibly shed some light on some of the questions that were asked this morning and weren't answered.

I think we are going to lose between 14 and 17 percent of our farmers yearly, simply supported by history. Go back and look at what we have lost, the policy hasn't changed. I think we will continue on that 14 to 17 percent annual depreciation.

You were asking about the job impacts of these commodity prices. Again, very simple arithmetic. Every million bushel of grain at 10 cents a bushel is $100,000. On annual production of grain it will run somewhere in the neighborhood of $1.3 billion for every 10 cents a bushel, just simple arithmetic. So there are a few points in the testimony that I do want to make.

One is that we do appreciate the administration's effort, in recognizing that the deficit has to be dealt with. In order to deal with that, we are going to have to raise some revenue somehow, but there are two ways of raising revenue. One is to raise the rate and the other is to increase the base. I prefer broadening the base.

Now, agricultural commodities, obviously, are a very large base. As far as budgetary restraint, agriculture has in the past, and it looks like we will continue to share a disproportionate whack. I don't think that is, just plain and simple, fair. The farmer is not in a position to be able to pass this on, be it the inland waterways tax or Btu tax. We are a shrinking base. I think the Secretary can offset some of this with his discretionary powers. I think raising the loan rate is a good idea.

I think it is important we understand there is a major difference in the financial status of agribusiness and agriculture on the production side. From comments made by the committee members, their district people are in the same shape that most of the country is in. I think we better do as Mr. Peterson suggests and that is look at the policy. If the policy is wrong, quit putting Band-Aids on it and take it apart and fix it with something new.

There are two charts that I presented in my testimony—very simple charts. One is the disparity in farm income as compared to where the money goes, and marketing serves as an input cost. You can see from 1910 to 1990 with the exception of a couple little bumps the farmer's share of the money has pretty well stayed consistent while everybody else's has gone up, demonstrating the farmer's inability to extract money or pass on costs.

The second chart quite simply is a projection of farm income, and it is going in the dumper, Mr. Chairman. We need to be doing something about that. I think it will take a revamp in policy. Something that is extremely important is the amount of dollars we are talking about on the cost of the loan rates and on the commodities.

For every 1 cent in savings in deficiency payments there is a $55 million savings just on corn if we can knock 1 penny off the deficiency payment. Obviously, for the others, your barley, oats, and sorghum, 1 penny amounts to about $8.2 million. That is just a penny. So a little rise in the loan rates is going to have an impact.

In our recommendations to the committee, we assume that we are not going to operate under this marketing loan. We understand it will take some legislation to correct that, but all the marketing loan is further policy designed to lower the cost of agricultural commodities. Agriculture has just about had enough of that. I have spent the last month holding meetings out in the country with producers, and the mental attitude is as low an ebb as I have seen in a long time. So I think we better be addressing that.

In closing, I want to submit to the committee and to the administration as a whole, that our farmers' ability to produce is not a curse, but some of the policy we have effectively put on them is.

Mr. Chairman, thank you for the opportunity, and we will do all we can to help. Thank you.

[The prepared statement of Mr. Garland appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you, Mr. Garland. We will go now to Mr. Laurie.

STATEMENT OF JOHN G. LAURIE, PRESIDENT, MICHIGAN FARM BUREAU, ON BEHALF OF THE AMERICAN FARM BUREAU FEDERATION

Mr. LAURIE. Thank you, Mr. Chairman, members of the committee. Appreciate the opportunity to present the views of the American Farm Bureau Federation this morning. I am John Laurie. I am president of the Michigan Farm Bureau and a farmer there in Michigan, raising a number of crops—wheat, corn, soybeans, sugar beets, dry beans, alfalfa. We also have a 150-cow dairy herd.

We appreciate President Clinton's efforts to focus the Nation's attention on our serious budget and economic problems. Clearly, difficult choices will be required to bring the deficit under control and to provide responsible prioritization of spending and tax policy for the Nation. While our members are strongly committed to the stated objectives of deficit reduction and economic growth, we have serious concerns about the adverse economic impact that the proposal presented to the Congress by President Clinton will have on U.S. farm families.

Of primary concern is that the energy tax will severely hurt farmers and ranchers. In addition the budget cuts proposed for agricultural programs and services will significantly reduce the already diminished level of assistance provided to our most basic industry, agriculture.

The cumulative effect of the energy tax and agricultural budget cuts will decrease our ability to compete in world markets. This directly conflicts with the direction farm policy has been following which recognizes that a prosperous agricultural sector must be responsive to competition around the world. American agriculture cannot afford to withdraw from the international markets where we sell up to one-fourth of our output.

We cannot afford to lose competitiveness by increasing the cost of our agricultural products through an energy tax. This tax would impose added costs on individual producers who can't pass those costs on. Increases in transportation and processing costs will simply make our products less competitive in world markets.

I would summarize our concerns about the energy tax.

First, agricultural production is energy intensive. We project that farmers will incur about $1 billion per year in additional production costs. These are costs that cannot be passed on in the form of higher prices. Producers of commodities are largely price-takers and not price-makers.

Second, farm prices will decline. Farmers receive the market price established in the commodity markets minus transportation and handling costs. The energy tax will increase these costs and result in lower farm prices.

Third, the $1 increase in the inland waterway fuel tax will increase transportation costs for Midwestern grain and soybeans by at least 8 cents per bushel. Finally, applying the Btu tax to renewable alcohol fuels such as ethanol is contradictory to the objective of promoting renewable fuels that reduce harmful emissions.

The second main objection we have is the imposition of another round of budget cuts on agricultural programs.

This is proposed at a time we are attempting to negotiate a multilateral trade agreement that will create opportunities for American products overseas and combat the trade distortions created by export subsidies, import barriers, and trade distorting internal supports. We would simply be following a practice of unilateral disarmament to adopt these budget cuts at this time. Other countries will have no motivation to curtail any of their current practices if we dismantle agriculture's safety net regardless of what actions they follow.

The agricultural budget cuts must be considered in the context of what has occurred in the budget for commodity programs since 1986.

Spending on farm programs has been cut by more than 50 percent since 1986. In every budget-cutting exercise since that time, agricultural spending has been reduced by more than the rate of reduction applied to other programs. Agriculture has been willing to do its share to reduce the deficit and will continue to do our part, but the cuts that have been imposed are clearly disproportionate.

The specific budget cuts proposed by the President are also troubling to us. We must recognize that by adopting these budget cuts, we will have written the 1995 farm bill. You as members of the Agriculture Committee will have very little latitude to enact commodity policy in that legislation if these reductions are locked in this year.

I would like to list some of our concerns about these specific budget cuts.

First, the $100,000 off-farm income test. We believe that agricultural programs will only diminish in effectiveness if arbitrary limits on eligibility are adopted.

People will find ways to circumvent the restrictions and those made ineligible will continue to produce in competition with the program.

We were especially concerned that this measure would establish the precedent for further limitations on program eligibility based on income, farm size, or some other arbitrary standard.

Increasing flex acreage. We believe this is a very ominous cut which would come directly out of farm income and further weaken the economic condition of many farmers and farm communities.

Third, elimination of 0/92 and 50/92 programs and without the use of an offsetting annual acreage reduction program, over 12,100,000 acres would return to production. Unless other program provisions are required, farm production will rise, prices will fall, and deficiency payments will increase. There could be an environmental cost to eliminating these programs. These programs require the planting of conserving use crops which provide substantial soil conservation benefits to our Nation.

Grazing fees, nearly 20 percent of the Forest Service rangeland and approximately 10 to 12 percent of the Bureau of Land Management rangeland is now in nonuse status. An increase in grazing fees charged to permitees would cause a significant decline in animal unit months leased and this could have a direct impact on the rural economy of the West, as well as, much of the Corn Belt where these cattle and sheep are fed.

Increased user fees and assessment, the budget proposal as currently structured seeks to raise an additional $900 million, over 4 years through additional assessments in user fees. There appears to be no between-program costs or benefits and the increased burden borne by producers through these user fees. If we examine Federal expenditures, for instance, with the dairy program, we note a substantial decline from the mid-1980's to the present. Costs are not increasing and official estimates do not project an increase in the near future. Yet it appears that dairy producers will be hit with about a 67-percent increase in their milk tax or assessment.

We are also concerned about plans to increase inspection fees for meat and poultry by $416 million. These inspection programs have been designed to ensure the public health and attempts to shift these costs to producers or to the industry will erode consumer confidence in the system and place additional stress on the rural economy.

So in conclusion, Mr. Chairman, the American Farm Bureau is concerned that the President's proposal for reducing the deficit, if enacted, would severely damage conditions for agriculture and cause our products to be less competitive in the world markets. Budget cuts for commodity programs will eliminate some very effective programs and add instability to the agricultural economy.

In light of the very significant and painful budget savings that agriculture has absorbed over the past 8 years, this budget burden is excessive.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Laurie appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

We will go to Mrs. Denise O'Brien.

STATEMENT OF DENISE O'BRIEN, VICE PRESIDENT, NATIONAL FAMILY FARM COALITION

Mrs. O'BRIEN. Good morning.

Being the only female on the panel here reflects the female status in American agriculture in that we are considered to be invisible farmers but we are all out there actively farming and a lot of us, most of us, are working off-farm jobs to support incomes and keep the farm going.

My name is Denise O'Brien and I farm with my husband and three children on a 180-acre farm in southwest Iowa. We are diversified, we use no chemicals, we have been farming for 17 years.

We raise organic fruits and free-range chickens that are part of a women's cooperative called Homestead Pride. Unfortunately creativity, diversity, and organic does not translate into profitability and sustainability given the current farm prices we are receiving and our costs of production. I appreciate this opportunity to address the committee this morning and be the spokesperson that represents 38 rural advocacy groups in 30 States.

I have a written text that I am submitting and I would like to, as I have been thinking about this hearing and what my remarks will be, they kind of came to me last night as I was preparing my family to leave and getting schedules coordinated and all that. One of the persons I called last night was—he happens to be an implement salesman in my hometown of 7,500 people. He was saying, "Where are you off to now, Denise?" I said, "Well, I am going to Washington to testify at a hearing." He says you just tell them what is going on here and let me tell you something you could tell them.

He is my age, we are in our early 40's, our children go to the same schools, he is the school board president at this time. He is an implement salesman.

He said farmers are not buying anything. In Iowa in 1979 when he started farming, started selling implements, he was working for New Holland which has been bought out by Ford now. There were nine salesmen for that one company in the State of Iowa. Today in 1993, there are three merged companies, and all of the sales force represents now are two salesmen for the State of Iowa.

He said people are not buying, farmers are not buying large-ticket items, they are buying grinder mixers and manure spreaders. They are not buying any hay tools and not buying large tractors. He said he would like to stay in Iowa. He would like to stay in our community, we just passed a school bond issue surprising everyone given the current status of our economy. He told me he took a $6,500 base salary pay cut in order to be able to keep his job and then he—they gave him a 3-percent increase for the next 3 years, 1 percent a year as a pay increase.

He says I am lucky my wife works so we don't have to struggle like a lot of people do, like the farmers that he visits every day. He talked about the stress level and the total feelings of farmers of depression and trying to get through this next year and onward.

It is interesting because I read a headline in the paper the other day that stated when it was Agriculture Day on March 20, and the headlines said American farmers feed 128 people with the crops

that we grow. I think that is very interesting because I can't feed my own family on the income we raise on our farm.

We are eligible for food stamps and because of the social stigma and the fact we used them once before and don't want to regress to that again, we don't use foodstamps but my kids are part of the reduced school lunch programs in our school system. We milk 30 cows, work 15-hour days and yet our children and our children's friends wonder why there is no money to buy the new tennis shoes they need for basketball, football, track, or whatever. So it is very discouraging for people my age as Representative Collin Peterson said earlier that we are losing a whole generation of farmers. I think that is extremely true.

My husband and I talked weekly if not daily sometimes about leaving and what other plans we can make at this time. Our children are 11, 13, and 15 and we would like to stay in the same community and stay near their grandparents and near the people we were raised with.

I would like to go on to three major concerns that the Vision of Change documents has in relation to farming. I would like to make sure these get vocalized. That is the increase in the 15 percent triple base to 25 percent starting in 1996.

The Vision of Change book misrepresents the impact of triple base asserting that it has had both positive and environmental impacts since 1990. For the small farmers who fall under the $50,000 pay limitation there has been the direct cut of 15 percent in farm program payments. For larger farmers who exceed the payment limitation, this simply keeps acreage level under the cap.

There may be some flexibility based on nonpayments. More than likely the farmer simply does not get a deficiency payment on that percent of their acreage. In fact, the environmental consequences have been negative based on the need to increase production on the acreage still enrolled in the program—directly contrary to a program that would promote sustainable practices.

The proposal that we propose is increase in loan rates, not triple base to save budget moneys. We urge retention of the nonrecourse loan rate with increased loan rate levels to the 5-year average price to meet the budget cuts instead of direct cuts in farm income from the programs.

I would like to address the 67-percent increase on nonprogram crops including dairy, tobacco, peanuts, soybeans, and milking cows.

This assessment I see every 2 weeks on my milk check and it is 11.25 cents right now. If we are increased by 67 percent, we are not eligible to get that repayment because we did increase our production last year and when you have only 30 cows that you milk, I don't feel like we are directly impacting the over surplus of milk.

We are FmHA borrowers and we were restructured in 1987. We are expected to keep current with our payments but since 1987, we have been refused any operating money. We do not qualify for guaranteed loans. We have been told for the last 5 years that they—our county office did not have money available for direct operating funds. Yet I know that in 1992, $279 million was returned to FmHA in direct loans despite pending applications of which ours was one of them.

As I was pointing out this morning, I was reading through statistics and information from Iowa State University that relate to me some very interesting and disturbing trends, trends that undoubtedly will bring the demise of the family farm structure, of family agriculture in the not too distant future. Projections show Iowa losing 22,000 farms between 1987 and 2007, less than 14 years from now.

Second, we all know the average age of farmers, they are in their 50's.

Third, approximately 45 percent of farmers surveyed believed economic conditions would get worse in the next 5 years.

Fourth, that in the Corn Belt where the average acreage size is 300 to 400 acres, 40 percent of the operators work off-farm employment and of that 45 percent, three-quarters of them worked 40 hours or more per week.

Fifth, that approximately 70 percent of the farmers in the survey postponed major farm purchases from 1984 to 1988 and almost 45 percent have planned to make postponements of major farm purchases, implements, as the implement dealer was talking about, from 1988 to 1992.

We can look at that data and look at the implement sales.

This relates back to what the implement salesman was telling me on the phone. I know my children will not farm. Nor do I want to encourage them to farm under such adverse conditions. Even though we have farmed and we have been good stewards of the land, it has been very difficult. Our farm will be gobbled up by our neighbors who will need to have more regulations because of their resistance to farming environmentally with sustainable sound yield.

I think it is very essential that we work on farm income and that farmers do not need again to take the brunt of what the preceding speakers have mentioned of the budget cuts that President Clinton has proposed.

Thank you.

[The prepared statement of Mrs. O'Brien appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you.

We will go to Mr. Rosmann.

STATEMENT OF RON ROSMANN ON BEHALF OF THE CENTER FOR RURAL AFFAIRS AND SUSTAINABLE AGRICULTURE COALITION

Mr. ROSMANN. Thank you, Mr. Chairman.

Thank you for this opportunity to testify. I am Ron Rosmann, I am here on behalf of both the Center for Rural Affairs and the Sustainable Agriculture Coalition.

With my wife Maria and one employee, I farm a diversified 480-acre farm in southwestern Iowa, 40 miles from Denise, by the way. We have a crop rotation of corn, soybeans, oats, alfalfa, a stockcow operation of 60 Simmental cross cows utilizing rotational grazing practices, a farrow-to-finish hog operation producing 1,100 head per year and a small tree nursery. We also have three children, three boys, ages 11, 9, and 7 and I brought my 11-year-old son along with me for the first time.

I have been farming for 20 years. We own two-thirds of our land and have virtually no off-farm income. Over the last 10 years we have reduced our purchased nitrogen and other soil nutrients by two-thirds through better soil management without any yield reduction. Over the same period of time we have reduced pesticides by close to 90 percent with no yield reduction, through ridge tillage and better cultivation technology.

We have been able to do this in large part due to the learning process of performing on-farm research trials in conjunction with the Practical Farmers of Iowa and Iowa State University.

I am a research cooperator with PFI and serve on the technical review committee for USDA's sustainable research and education program.

Let me begin by saying that there is much to praise in President Clinton's plan for stimulating the economy and reducing the deficit.

We agree with this committee, however, that agriculture, especially the farm commodity programs, is slated for a grossly disproportionate share of the deficit reduction effort. We strongly prefer the Senate budget resolution's $2,700,000,000 cut in mandatory farm spending to the $4,900,000,000 in the administration's proposal.

We encourage you to work toward the lower number. As important as the total size of the cut, however, is the content of the proposals and distribution of the impact of the cuts.

The proposed farm program package is unfair and should be significantly modified. The 1990 budget deal did not reduce Government support for the Nation's largest farms at all. The Nation's largest farms received $100,000 before the 1990 cuts, continue to receive $100,000 now and would continue to do so. If another round of budget cuts must be dealt with, it is time for the largest farms to make a significant contribution to deficit reduction.

A point I would like to stress very much is this: I also believe that if there are no significant farm program reforms to target benefits to small- and moderate-size farms and beginning farmers and to base those payments on how environmentally sound we farm, then someday soon there will be little left of farm programs at all, because the American public will not stand for it and neither will the Congress.

If cuts must be made, we strongly urge you to put all the options on the table and closely and carefully consider the probable impacts of each possible package on the structure of agriculture, on rural communities, on the environment, and on natural resources.

Some specifics on a package that could be considered include: One, reform payment limitation and eligibility rules; two, establish a variable or graduated triple base with perhaps three steps that increase the percentage of nonpaid acres as volume of production increases; and three, strengthen implementation and improve the integrated farm management program. I happen to belong to that program.

I think there could and should be a lot of improvements there.

Four, establish a new conservation and environmental paid diversion or bonus-TOPS program to improve the environmental benefits of acreage reduction efforts. Make payments for such things

as field borders, contour grass buffer strips, grassed waterways, filter strips, and wildlife habitat.

What we are talking about here is targeting. I believe that is a fair way to make budget cuts. It is a good way to strengthen family farms and economic opportunity and is consistent with improved program linkages to good stewardship. If this path isn't chosen, farm programs will continue to take a disproportionate share of budget cuts until there is little or nothing left.

Just a couple comments on the discretionary spending side of the President's plan. We strongly urge you to reject the proposed 25 percent cut in FmHA direct farm ownership and operating loans. This is especially true as the agency gets ready to implement the new beginning farmer loan programs fashioned by this committee last year.

In closing, let me say this: The industrialization of agriculture is continuing to replace farmers and dislocate rural communities. The farm share of the agricultural dollar continues to decline, and is now at the ridiculously low level of 5 percent. Despite the fact that bigger does not often mean more efficient, technology, capital, and policy continue to fuel bigger farms and industrial agriculture.

Yet, I believe smaller scale diversified farming will survive by forging new partnerships with nature, utilizing the best that new low-cost technologies can offer, and regaining market share through new farm enterprises and value-added activities.

It would be wonderful if Federal policy would consistently support this transition rather than so often stand in its way.

Once the externalities—including resource and environmental degradation and social and community costs—are added to the cost of production, no model can compete with the diversified owner-operated farm. That is what this country was built on. Most of our forbearers left the vestiges of the feudal system of agriculture to become owner-operators in this new land.

We are now forsaking that model and going back to a form of feudal agriculture with a new peasant class who have contractual arrangements with corporations or wealthy absentee landlords. It doesn't have to be this way. There should continue to be room in agriculture for diversified owner-operated farms. I might close with one other thing, I believe it was available for each of you to have a copy of an article that I wrote for Newsweek magazine last May talking about some of these same points today.

Thank you very much.

[The prepared statement of Mr. Rosmann appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. That all is part of the record.

Mr. Swenson, please.

STATEMENT OF LELAND H. SWENSON, PRESIDENT, NATIONAL FARMERS UNION

Mr. SWENSON. Thank you, Mr. Chairman. As a constituent of the Chair, let me offer my congratulations on your selection to chair this very important committee and commend you and your members for holding this very important hearing. I am here today on behalf of the 250,000 farming and ranch families of the National

Farmers Union, to comment on their views of President Clinton's economic plan.

Let me just say to you and to the members and I wish the members from the other side were here, you are probably going to see more unity among the agricultural groups before you today than you have in many years in regard to the situation in agriculture. I think the previous panelist pointed out that agricultural producers have not recovered from the economic depression of the 1980's and that net farm income in agriculture is in a disastrous situation even though that of net farm income skyrocketed. That income has been more associated with agribusiness than with agricultural production. So I submit for the record a complete text of my statement with appropriate attachments of which I will only highlight.

National Farmers Union supports the concepts, the goals and objectives as outlined by President Clinton in a Vision of Change for America. We believe that there is a need to stimulate the economy, to invest in its people, in the Nation's infrastructure, to reduce the Federal deficit, and to reform the Nation's tax system. Today National Farmers Union will offer its views, its concerns, and its pledge to work with the Clinton administration, with this committee, and with Congress to improve the proposal and accomplish its objective.

National Farmers Union endorses the proposal to increase the top tax bracket on both individuals and corporations. We endorse taxing foreign corporations on profits earned in America equal to that of domestic corporations, and the elimination of tax incentives for American corporations to move to other countries.

National Farmers Union as well as has been expressed by other producer groups at this table having serious concerns in regard to the proposed Btu tax and the inland waterway fees.

It has been mentioned that agriculture is very energy-intensive. I don't want to get repetitive in the presentation to you today but it is in my formal testimony.

As we look at the options, I would suggest this committee look at an exemption for all or a percentage of the energy used in production of food and fiber or credit producers for energy generated from renewable resources. I also urge that on inland waterways fees you take into consideration the benefit the public receives by the maintenance of our lock and dam system, the ability for flood control, maintain recreation and wildlife areas are just a couple, in addition to the movement of commerce. Any exorbitant fees would be especially burdensome to farmers in the Upper Midwest.

We have serious concerns with the investment tax credit. It would not provide economic stimulus unless it is strictly targeted to new enterprises such as encourage new family farms as an opportunity for elderly farmers to sell to beginning family farmers.

We oppose the investment tax credit that encourages concentration and vertical concentration in the agricultural sector. Equipment investment for many farmers, consists of used equipment and the proposal which disallows used equipment is unacceptable.

The Vision of Change in America also calls for significant reduction in government outlays as associated with farm programs.

68-362 0 - 93 - 7

I believe that the proposal submitted by President Clinton should be viewed as fiscal guidelines only, with alternative programs considered to successfully achieve the fiscal goals.

National Farmers Union opposes the implementation of a means test. This would be extremely difficult to administer, require local ASCS offices to become tax record offices. We believe that farm program benefits can be targeted as stated by the previous speaker, to family sized operators without totally exempting any farm price. This can be done by tying supports to units of production with a maximum number of units targeted for support. This would enable farmers to produce food and fiber in a manner environmentally compatible with the soil and water.

National Farmers Union is opposed to increasing the flex acres. The flex acres have failed to increase cash commodity prices. We cannot afford as stated by the previous panel, to continue the failed policies of the past we must have a vision of change which will result in higher cash commodity prices.

I draw your attention to a chart in my testimony that outlines the proposed reductions in farm outlays, yet at the same time calls for more money in rural development and nutrition. We support more money for nutrition and more money for rural development but the real core of rural sustainment is diversity within its agricultural production sector. If we do not maintain or expand that industry, then rural communities will have a tremendous negative domino effect.

Economic recovery in rural America, additional tax revenues, and job creation, and reduction in government outlays could be summed up in one short statement, Mr. Chairman, that I would encourage you to post on your office wall. "It is the cash commodity price or income," and then the popular statement of the campaign, "stupid."

Because we really must focus, Mr. Chairman, and members of the committee, on what cash commodity prices are going to return to producers in the marketplace. If we lose that focus, then we continue to depend upon outlays of deficiency payments. That is not good for agriculture, and it is not good in Government policy.

We urge that social and economic models be developed by this committee, by Congress and the administration on the impact of each proposal, and for alternatives as well. We pledge our cooperation to this committee, to the administration in the development of these models.

Thank you Mr. Chairman.

[The prepared statement of Mr. Swenson appears at the conclusion of the hearing.]

Mr. JOHNSON. Thank you. I thank all the members of the panel.

Mr. Gady, I want to thank you for your comment on the inspection grain service reauthorization. I am looking forward to the results of the GAO study and work with the Grain and Trade Council to keep IGS operating efficiently and effectively.

Do you have any comments on the impact that the expiration of the CRP contracts could have on production capability in the marketplace? Anybody like to share with us in that regard?

Mr. GADY. We have kicked that around quite a bit among ourselves. I am not sure the Grain Trade Council has a position on the CRP. There are 35 million-plus acres in the CRP. A good percent-

age of those would come into production. Probably after being in grass and alfalfa or whatever, for 10 years, it would be very productive land. So there would be a lot of additional acreage and additional production to deal with.

On the other hand, there is probably $1,700,000,000 to $2 billion a year expenditure to maintain those acres.

I think there is some environmental benefit from the CRP. I guess what I am saying is it is not an easy question to answer.

Perhaps there is some opportunity for targeting some of those acres environmentally to keep them in the program and maybe let others come back into production. But again, we don't have a strong opinion either way. It is a tough issue.

Mr. JOHNSON. There seems to be a fair consensus that the additional budget cuts and taxes to reduce the deficit ought to be on someone else and we all would prefer that ourselves, but the reality is to some extent that agriculture is almost certainly going to play a role in the deficit reduction effort this year.

Given that reality, Mr. Rosmann and Mr. Swenson in testimony have suggested among other things a target of farm program benefits. To save money, I presume, while preserving benefits to medium-scale agriculture, and second, to shore up the credibility of farm programs among the general public.

I appreciate the controversial nature of this proposal, but I wonder if the rest of you would care to suggest whether you could support or oppose—I know there are 1,000 ways to target farm program benefits, we are talking conceptually here now—for the rest of you, could you support such an effort to target benefits and if not, what other alternatives would you offer as ways to save money out of the budget.

I think the necessity to do that is a reality. Mr. Garland, any observations?

Mr. GARLAND. Mr. Chairman, as far as target I would have to know more about it. Obviously, there is some definite areas that targeting needs to be done in, and I would say offhand, especially in the "new farmer" programs that they are using, in Iowa, to get new young families on the farm, a target needs to be defined. As far as target overall, I would have to see what proposals come forth on it.

Mr. JOHNSON. Mr. Laurie, this is unfair to you because I am asking you about a concept without a specific proposal being put before you. Conceptually or philosophically, any insights that you would share with us?

Mr. LAURIE. Mr. Chairman, I begin by saying we do not have at this time a proposal for target benefits. We are obviously looking at those areas but I would share perhaps an observation which my colleagues on the panel might also share as well, and we discussed this a bit yesterday in the panel, that Congressman Nussle referred to earlier this morning.

We really face two issues in agriculture and rural America. Rural development and targeting of efforts toward rural development activities were mentioned by a couple of panelists this morning.

But those two areas are, one, economic concerns, and the other, social concerns. I believe we heard those social concerns raised this

morning by perhaps all of us in our presentations along with the economic concerns.

One of the challenges that faces this committee as well as those of us in agriculture is how do we effectively separate the needs for targeting of social concerns and benefits toward rural America from the necessary economic adjustments that need to be made. It is a very difficult challenge but there are two distinct areas that need to be addressed, one, the social area, the other the economic area.

As I say, if I had the answer to that question, I would certainly have used that instead of the testimony I did perhaps.

But I believe that we all need to focus on that.

Mr. JOHNSON. Very good. Mr. Chancey.

Mr. CHANCEY. Chairman Johnson, everybody is always wondering about where we are going to save money. The bottom line is we need to pump more money into the farm and rural economy. Obviously, the farm loan programs we have are not working well enough. Perhaps an increase in the farm loan rates would enable farmers to spend money, which will turn over seven times as it has been shown in studies. Putting rural Americans back to work will save money because this will create taxpayers for the American Government.

We are going to be able to save money—it is our contention—we'll actually save money by raising loan rates—as long as we try to stay away from market loan concepts on wheat and feed grains because the market loan concept would defeat that purpose, I think.

So if we stay with what we have, increase the loan rates, I think we would actually reduce the overall exposure to the budget.

Mr. JOHNSON. Mrs. O'Brien.

Mrs. O'BRIEN. I would like to suggest that we have been targeting programs already and it is targeting programs to agribusiness to continue cheap grain and that gives us under the cost of production off the farm. And that what we need in the place of that is a supply management program that helps raise prices and I think we need a two-tiered dairy program with a fair price. We need bushel volume levels and assessments on levels that would be above the level of production.

I think we need to combine social and economic, I don't believe we need to separate those because we are based on that in rural America and as we separate them, we also start getting into the idea of industrialization of agriculture. I don't believe in rural America and rural Iowa where I live that the economic and social aspects should be separated and that we should look at them in a way to raise the level of income in Iowa.

A figure I was looking at this morning, the average income in the State of Iowa in my county actually that I was looking at is $16,000 per capita. I believe that that is fairly reasonable and if you are talking about per capita with a family of five, my family falls way below that per capita income. We need to have that social and economic combination.

Mr. JOHNSON. Thank you. My time has expired and I turn to Mr. Volkmer.

Mr. VOLKMER. I have no questions.

Mr. JOHNSON. All right.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman, I want to commend you for having this very important and timely hearing and commend the panel. I have been attempting to articulate the concerns that you have put forward very clearly this morning back in my town meetings in North Dakota. I will be plagiarizing from your documents heavily in the future. You put things extremely clearly and I think focused the concerns extremely well.

Mr. Gady, I have a great deal of respect for your firm and they have a substantial presence in my State of North Dakota.

In reviewing your statement, it differs in certain fundamental respects from some of your fellow panelists as might have been expected. I would ask you whether the National Grain Trade Council believes that preservation of small- to mid-sized family farm produce units, preserving the family farmers, in essence, is an appropriate goal of national farm policy.

Mr. GADY. I believe the goals of farm programs have historically been along the lines of income stabilization; to cushion the impact of the bad years and to help build strong demand for agricultural products.

I am not sure that Government knows how to target programs at preserving the family farm or at preventing the growth of corporate farms. I think the program should be to deliver income support, income stabilization as efficiently as possible and let farmer decisions provide most of the direction that agriculture goes.

There are millions of small- and medium-sized family farms who are good suppliers of ours and will continue to be good suppliers of ours. I think the family farm has evolved over time and will continue to evolve in the future. Being from a farm family myself, I understand those values and value those values. But I am not sure that government has the capability of achieving desired social goals through targeting program benefits.

Mr. POMEROY. Thank you. Mr. Swenson, I have heard some opposition to the targeting concept in that if it were to be established as you suggest with a base unit of production eligible for farm program participation and beyond that not be eligible as basically creating a welfare system where we are giving Government help to the smaller producers. There is some concern about the onus that might attach to farm program support if it were targeted in that way.

I am sure in your organization's discussions you have dealt with this issue. I am interested in how you resolved it.

Mr. SWENSON. Congressman, first of all, when targeted to units of production, it does the opposite. It puts the efficiency, the management responsibility, and the skills in the hands of the farmer and if he or she is an inefficient operator then they fail.

They don't get the Government payment and there is no welfare payment for nonproduction. If they have driven up production costs to too great an extent, carry too heavy a debt load, the Government will not bail them out. So it is the opposite. It is not a welfare program. The biggest complaint that I have heard in Government programs is that 85 percent of the benefits go to 15 percent of the producers and 85 percent of the producers have gotten very little. So this reverses that outcome. If the real trend is to try to maintain

a diversified agricultural production system, it reverses that philosophy and that direction, but it sure is not a welfare system and it is not directed in that sense at all.

Mr. POMEROY. Mr. Rosmann, I noticed your head nod. Do you believe that base unit production support might be consistent with promoting sound environmental and ecological practices in farming?

Mr. ROSMANN. Yes, very much so. The reason I was nodding is that I was thinking of our work in Iowa which, is really pioneer work on how farmers can cut their costs of production, not cut their yields, and decrease the bad environmental effects. One specific on that is the use of what is called the late spring soil nitrate test which allows us to cut back on nitrogen and farmers have significantly reduced nitrogen use, it is a very heavy user of energy to produce, of course.

It is estimated in Iowa alone that if we used the late spring test, Iowa farmers could save $100 million without decreased productivity. So what I am saying starts to tie how we farm to who farms in terms of size and the types and structures and putting the environmental practices, the farm ownership, the structural things and that certainly brings the social aspects into it.

I can't separate social from economic and environmental either. It is just unfortunate that our economists traditionally have separated them. That is part of the problem.

Mr. POMEROY. My time is up, Mr. Chairman. Just in closing, Mr. Rosmann, I am glad your 11-year old could come today. I think we need to commit ourselves to make sure he has a future on your farm, too.

Mr. ROSMANN. Thank you.

Mr. JOHNSON. Mr. Barlow.

Mr. BARLOW. Mr. Chairman, I want to thank you very much for the hearings that you have held and for the excellent panels that are here and I want to compliment you on the way you are all working together.

General commodities is a term that I am interested in seeing expand very much for the sake of what Mr. Swenson was talking about, the cash commodity price income.

I just want to raise this for a point of reference for the record. I am wondering if in the future we might be able to hear of the supply of wood fiber and various categories of wood products as part of the general commodity picture.

We have jurisdiction in this committee over the forest lands, but I am thinking here that the jurisdiction of the forest lands from a management standpoint is kind of distinct from the supply picture and what is available in the Nation in terms of—did I mention lumber and woodpulp and so forth because I believe in the years ahead we are going to see, for the sake of the farm economy and as a help to the farm economy, that we will see the development of fiber resources out of private lands, down the line, with the new technologies we have for using short-rotation timbers and in dimensional lumber and fiberboards and flake boards and beams out of laminates.

This will be a good source of income for farmers who want to address it aggressively.

Would anybody have comments on that?

Mr. JOHNSON. The chairman would interject that while the panel members may have comments on that, strictly speaking the jurisdiction over wood products would be in the special commodities and would be Chairman Rose and his subcommittee.

Mr. BARLOW. Yes.

Mr. JOHNSON. There are artificial distinctions of jurisdiction here and the gentleman is absolutely right that this is very relevant to producers who grow the general commodities crops because obviously it is one farm income they are trying to generate.

But the primary focus of the timber issues would lie with his subcommittee rather than this one.

Mr. BARLOW. Yes, I understand.

But could we ask their reactions to the question?

Mr. JOHNSON. Yes.

Mr. SWENSON. I think you raise an excellent point. We see in our membership that we are in the process, in Pennsylvania, of helping producers form a timber cooperative to develop better techniques in the way they market their product. We are looking for rural development in a local processing facility to do the very thing you want to do, not only to avoid having a very limited market opportunity and to return the best price to them but also in rotation of their forest lands. This has become more and more of an avenue of income for those producers because of the situations of other commodities.

There is more interlinking today in what happens to the commodities than the separation that we saw in the 1980's where we become commodity-specific. So I think you raise an excellent point.

Mr. BARLOW. Yes, Mr. Rosmann.

Mr. ROSMANN. I would like to add to that also, if I may.

I simply think we have to have more trees planted on the CRP ground. I think that needs to be targeted and in Iowa for instance where most of the timber has been cut over the last 100 years. On our own farm, I mentioned we have a tree nursery. We are diversifying into that, for sales in the next 8 to 10 years but we are going to be looking at other innovative things such as a shelterbelt, which is kind of unheard of in our part of the State, but we are going to plant one species of a hardwood that will take a long time but the other species we are going to be looking at is a hybrid poplar which we could use for biomass fuels.

Another exciting thing in Iowa is the use of what are called riparian buffer zones where you see conventional agriculture with corn and soybeans being planted up to the ditches and creeks and the rivers and tearing out the fence lines, all the vegetation has gone with it so now we are trying to get it back by willows and poplars along stream banks that would do a number of things in very practical ways.

Mr. BARLOW. Very interesting. Mr. Laurie.

Mr. LAURIE. Congressman Barlow, just briefly, in a diversified agriculture as we have in Michigan, the timber industry plays a very important role. In that in fact that is part of the crop program of many farmers who produce some of the more traditional commodities as well. So we have a significant pulp industry, a dimen-

sional lumber industry, we have two powerplants now burning chips being produced in some cases by farmers.

So it has been a significant part of agriculture in our organization, we consider an integral part of agriculture.

The timber industry, however, not unlike traditional agriculture, faces many of the same challenges, not the least of which is being extremely overregulated and finds itself in a highly competitive position when they have to address the increased costs brought on by regulations.

I would also like to add that a unique program in the Upper Peninsula has been able to use timber in the construction of some bridges on highways and it has been found to be very effective especially where we use a lot of salt to deice the highways.

Mr. BARLOW. Yes, sir.

Mr. CHANCEY. Just to add a comment. In your search to convert these lands, sometimes we have a difficulty, I don't know if it is true in other States but I know in Texas as we tried to convert farmland into raising of trees, we were told we would lose the agricultural exemption on the land for 5 years. We couldn't afford to do that.

Mr. BARLOW. Very interesting.

Thank you, Mr. Chairman.

Mr. JOHNSON. Mr. Chairman.

Mr. VOLKMER. I do have a question, Mr. Chairman. Since we have time, I would like to ask the panel a question.

The previous panel testified in regard to the proposed cuts in agriculture and its effect on farm income. It is my understanding from that, from Dr. Knutson which I think was agreed to by Dr. Young, that if we took the yield, 0/92, 50/92 program took out and increased 25 percent and done the other things, we would end up with by 1996 reducing net farm income. Does anybody disagree with that?

Mr. GARLAND. No.

Mr. ROSMANN. No.

Mr. VOLKMER. None of the panel disagrees with that.

Thank you very much.

Mr. JOHNSON. I want to thank the members of this panel. I think your insights have all been very valuable to us. All the members of the committee and staff will be reviewing the written testimony. We have some very difficult choices ahead of us and your input will get us a long way down the road toward maybe these tough choices.

Thank you again.

With that, we will adjourn this meeting for today.

[Whereupon, at 1 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

CBO TESTIMONY

Statement of
Eileen M. Manfredi
Principal Analyst
Budget Analysis Division
Congressional Budget Office

before the
Subcommittee on General Farm Commodities
Committee on Agriculture
U.S. House of Representatives

March 23, 1993

NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EST), Tuesday, March 23, 1993.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

I am pleased to appear before the Subcommittee today to discuss the outlook for U.S. farm commodities over the next several years. The Congressional Budget Office's (CBO's) outlook is, of course, linked to its recent baseline projections for outlays of the Commodity Credit Corporation (CCC) for 1993 through 1998. I will also discuss CBO's estimates of the proposals regarding agriculture in President Clinton's budget.

CBO'S BASELINE OUTLAY ESTIMATES FOR THE COMMODITY CREDIT CORPORATION

CBO estimates that spending by the CCC during most years of CBO's baseline period will remain below the $9 billion to $10 billion range of the last two years. However, because of huge crops and continued high outlays for export subsidies and disaster payments, outlays for 1993 are expected to be noticeably higher. We project that CCC outlays will fall sharply in 1994 and will average about $8 billion a year over the 1994-1998 period, assuming normal weather and no major disruptions in international commodity markets.

CBO estimates that outlays for the CCC programs will exceed $15 billion in 1993, up from $8.8 billion last year and $9.9 billion in 1991 (see Table 1). Outlays are expected to rise for all the major commodities, as well

TABLE 1. COMMODITY CREDIT CORPORATION OUTLAYS
(By fiscal year, in millions of dollars)

	Actual	Projected					
	1992	1993	1994	1995	1996	1997	1998
Commodity							
Feed grains	2,510	5,886	2,733	2,460	2,667	2,747	2,949
Wheat	1,719	2,133	1,766	1,864	1,768	1,881	1,925
Rice	715	899	714	815	762	691	613
Upland cotton	1,443	2,306	2,060	1,420	910	920	879
Soybeans	-29	178	-70	-24	-20	-14	-10
Peanuts	41	33	1	1	0	0	-2
Tobacco	29	-2	-13	-99	-112	-73	-45
Honey	17	17	12	10	6	4	3
Sugar	-19	-28	-30	-31	-30	-30	-30
Dairy	232	254	257	277	293	307	297
Other commodities	90	351	66	57	42	29	15
Subtotal	6,748	12,025	7,496	6,751	6,286	6,463	6,593
Noncommodity							
Disaster payments	1,054	1,226	0	0	0	0	0
Export programs	720	1,275	1,171	1,197	1,098	1,095	1,043
Other noncommodity	-211	247	178	158	159	160	141
Net interest	531	237	193	269	240	230	251
Subtotal	2,094	2,985	1,543	1,624	1,497	1,485	1,436
Total	8,842	15,010	9,039	8,375	7,783	7,948	8,029

SOURCES: Actual data from Department of Agriculture; projections from March 1993 baseline of the Congressional Budget Office.

as for disaster payments and cash export subsidies. Major jumps are projected for corn and cotton outlays. Higher yields for 1992 crops are generally causing higher deficiency payments and loan activity. In addition, legislation and the use of discretionary program authority by the Secretary of Agriculture are responsible for part of the jump in 1993 outlays.

The two Dire Emergency Supplemental Appropriations Acts of 1992 provided disaster payments for crop losses in 1990 through 1992, which may reach $1.2 billion in 1993. The Agriculture Department is continuing to run the Export Enhancement Program with a high level of cash subsidies. Also, the advance payments for the 1993 crops, which will be paid this spring, have been announced at 50 percent of the estimated total instead of the usual 40 percent. Thus, 10 percent of payments for the 1993 crop year have been shifted into 1993 from 1994 for wheat, feed grains, cotton, and rice.

CBO's projection for CCC outlays shows a decline to $9 billion in 1994 and outlays of between $7.8 billion and $8.4 billion in later years. Outlays directly attributed to commodities account for about 80 percent of CCC outlays, with export subsidies making up the bulk of the remainder. Total outlays for feed grains account for almost two-fifths of the CCC total in 1993, more than the spending on wheat, rice, and cotton combined. However, in

later years the share of feed grain outlays declines, while that of the other commodities rises.

The CBO projections assume current law will be continued through 1998 for the CCC commodity programs, even though the current farm bill runs only through the 1995 crop year. As specified in law, the baseline reflects frozen target prices, producer discretion to use the 0/92 and 50/92 paid diversion programs, unpaid flexible acreage at 15 percent each year, an increase of conservation reserve acres to 40 million acres, and frozen program yields (those yields used in the payments formulas). In addition, the Secretary of Agriculture has the authority to set the annual acreage reduction program percentages, allow entry into the farmer-owned reserve of wheat or feed grains under specific conditions, and lower the basic loan rate. CBO assumes use of this discretionary authority when the forecast conditions for supply and demand warrant it.

The outlook for exports is contingent on numerous domestic and foreign policy decisions, especially those involving the continuation of the European Community agricultural reform and U.S. trade credits to Russia. CBO assumes that Russia will reschedule current debt and that export credit will continue to be made available later in 1993 and in subsequent years. However, U.S. exports of grains are sensitive to the level of credits or aid

actually made available. Table 2 summarizes the major assumptions underlying our baseline projections.

Corn and Other Feed Grains

Corn yields hit a record 131.4 bushels per acre in 1992, generating an estimated $3.7 billion in crop-year deficiency payments. Even with yields for the 1993 crop expected to fall by almost 10 bushels per acre, deficiency payments for the 1993 crop are expected to reach almost $3 billion. A doubling of carryover stocks expected at the end of the 1992 crop year is depressing prices expected for 1992, leading to a deficiency payment rate of $0.73 per bushel, up from $0.41 per bushel in 1991.

The Secretary of Agriculture attempted to offset the adverse price and cost impacts of the huge 1992 crop by raising the percentage of acreage that participants in the 1993 corn program must keep idle to receive program benefits. However, even with a higher acreage set-aside rate of 10 percent--double the 1992 level--announced for the 1993 crop, end-of-the-year stocks are still expected to decline about 11 percent but to remain at almost 2 billion bushels. Prices may climb to $2.24 per bushel, and CBO anticipates a deficiency payment rate of $0.60 per bushel for the 1993 crop (see Table 3).

TABLE 2. PROGRAM ASSUMPTIONS IN THE CBO BASELINE FOR THE COMMODITY CREDIT CORPORATION (By crop year)

	1993	1994	1995	1996	1997	1998
Target Prices (Dollars per bushel, except as noted)						
Corn	2.75	2.75	2.75	2.75	2.75	2.75
Wheat	4.00	4.00	4.00	4.00	4.00	4.00
Rice[a]	10.71	10.71	10.71	10.71	10.71	10.71
Cotton[b]	0.729	0.729	0.729	0.729	0.729	0.729
Nonrecourse Loan Rates (Dollars per bushel, except as noted)						
Corn	1.72	1.67	1.65	1.65	1.64	1.65
Wheat	2.45	2.20	2.21	2.17	2.18	2.18
Rice[a]	6.50	6.50	6.50	6.50	6.50	6.50
Cotton[b]	0.524	0.522	0.517	0.500	0.500	0.500
Soybeans	5.02	5.02	5.02	5.02	5.02	5.02
Acreage Reduction Requirements (Percentage of base acreage)						
Corn	10.0	7.5	5.0	7.5	7.5	7.5
Wheat	0	5.0	5.0	0	0	0
Rice	5.0	0	0	0	0	0
Cotton	7.5	12.5	15.0	12.5	15.0	15.0

SOURCE: March 1993 projections of the Congressional Budget Office.

a. In dollars per hundredweight.

b. In dollars per pound.

TABLE 3. MAJOR SUPPORTED COMMODITIES (By crop year)

	1991	1992	1993	1994	1995	1996	1997	1998
	Corn (Millions of bushels)							
Production	7,474	9,479	8,249	8,546	8,790	8,840	9,155	9,360
Exports	1,584	1,650	1,675	1,708	1,782	1,865	1,932	1,996
Total Use	7,915	8,345	8,495	8,636	8,845	9,016	9,173	9,318
Ending Stocks	1,100	2,237	1,996	1,911	1,862	1,691	1,678	1,725
Price (Dollars per bushel)	2.37	2.07	2.24	2.30	2.25	2.28	2.28	2.27
	Wheat (Millions of bushels)							
Production	1,981	2,459	2,475	2,381	2,380	2,494	2,570	2,629
Exports	1,281	1,275	1,209	1,250	1,294	1,331	1,375	1,410
Total Use	2,416	2,400	2,368	2,437	2,501	2,552	2,616	2,666
Ending Stocks	472	580	737	731	660	651	655	668
Price (Dollars per bushel)	3.00	3.26	2.91	2.91	3.03	3.06	3.05	3.08
	Rice (Millions of cwt)							
Production	157.5	179.1	162.6	172.8	171.5	170.6	169.7	169.4
Exports	66.4	75.3	74.3	74.8	73.3	70.6	65.4	61.1
Total Use	160.1	174.1	174.5	178.0	179.3	179.4	177.2	175.6
Ending Stocks	27.3	38.0	32.2	33.4	32.5	30.8	30.7	32.0
Price (Dollars per cwt)	7.58	6.12	6.35	6.35	6.60	6.90	7.20	7.45
	Upland Cotton (Millions of bales)							
Production	17.22	15.71	16.95	16.41	16.53	17.01	17.15	17.30
Exports	6.35	5.90	6.20	6.40	6.55	6.70	6.81	6.88
Total Use	15.89	15.58	16.03	16.38	16.68	16.95	17.19	17.38
Ending Stocks	3.58	3.82	4.85	4.99	4.95	5.11	5.17	5.19
Price (Dollars per pound)	0.57	a	a	a	a	a	a	a
	Soybeans (Millions of bushels)							
Production	1,987	2,197	2,054	2,076	2,104	2,113	2,142	2,165
Exports	685	745	727	727	733	739	749	760
Total Use	2,041	2,122	2,094	2,093	2,104	2,117	2,138	2,163
Ending Stocks	278	355	318	305	308	307	313	319
Price (Dollars per bushel)	5.60	5.46	5.58	5.71	5.70	5.73	5.70	5.68
	Dairy Products[b] (Billions of pounds)							
Production	148.6	150.9	152.1	154.1	156.6	159.5	162.4	165.3
Commercial Use	138.7	141.3	144.3	146.9	149.7	153.0	156.0	158.8
CCC Removals	10.4	10.2	8.2	7.8	7.4	7.0	6.9	6.9
Price (Dollars per cwt)	11.93	13.26	12.60	12.46	12.35	12.32	12.36	12.34

SOURCE: March 1993 projections of the Congressional Budget Office.

NOTES: cwt = hundredweight, CCC = Commodity Credit Corporation

a. Government agencies are prohibited from publishing price projections for cotton.

b. Dairy projections are presented on a fiscal year basis.

In addition to the costs associated with deficiency payments, CCC outlays are rising in 1993 because of higher loan costs for corn. The Secretary permitted entry into the 1992 farmer-owned reserve for corn, which allows corn to remain under loan for 33 months instead of the regular nine months and provides farmers with storage payments on the grain. CBO assumes that the Secretary also will open the 1993 reserve. The additional loan placements, combined with the delay in repayment of loans, are expected to generate $1.2 billion in net loan outlays this fiscal year. However, as those loans are repaid in later years, net loan outlays are expected to be negative in most years through 1998.

CBO estimates that outlays for corn for 1993 will be $5.3 billion, up from $2.1 billion last year. Costs would be higher except for a 5 percent increase in the use of the 1992 supplies (see Table 3). The biggest rise is for use of feed at 5.2 billion bushels, accounting for more than three-fifths of total corn use. In later years, use of feed is expected to continue rising slowly. Exports are also higher than last year and are expected to rise in later years. The largest increase in use, however, is expected for industrial use, largely with expanded ethanol production. By 1998, CBO projects that ethanol use will rise by 70 percent from the 1991 level.

CBO projects that acreage reduction percentages (ARPs) for corn will range between 5 percent and 7.5 percent a year from 1994 to 1998. These ARP rates, combined with the forecast increases in various components of use, will keep stocks from growing. Annual carryover stocks are expected to fall from 1.9 billion bushels in 1994 to 1.7 billion bushels in 1998. Average annual farm prices are projected to be between $2.25 and $2.30 a bushel for those years, and deficiency payment rates are likely to fall to around $0.50 per bushel each year. Thus, corn outlays should decline to half the 1993 level for the later years, ranging between $2.1 billion and $2.6 billion for 1994 through 1998.

Outlays for other feed grains--sorghum, barley, and oats--are forecast to be $0.6 billion in 1993, but are expected to fall by half for the remaining years of the baseline period.

Soybeans

Soybean outlays, which were negative last year, are estimated at $178 million in 1993. In later years, outlays are expected to be negative as net annual loan activity remains close to zero and loan origination fees generate receipts. The 1992 average farm price is expected to fall to $5.46 per bushel, down from

$5.60 in 1991. Higher yields and output are forecast to result in a sharp rise in stocks this year. For 1993 and later years, CBO expects higher plantings, approaching 60 million acres, ending stocks around 300 million bushels, and prices ranging from $5.58 per bushel to $5.73 per bushel.

Wheat

Outlays for wheat in 1993 are estimated to rise by 24 percent to $2.1 billion. The increase results from higher loan outlays as loan placements rise. Wheat yields for the 1992 crop jumped 15 percent to 39.4 bushels per acre, resulting in a 2.5 billion bushel crop. But average prices for the year are forecast at $3.26 a bushel--a healthy rise from the previous year. Use declined only slightly as export demand is remaining strong so far this year. Carryover stocks for wheat are expected to climb to 580 million bushels--about 24 percent of use.

Output next year is expected to remain at this year's level, as the zero ARP announced for the 1993 crop will encourage more acres to be planted, offsetting the lower expected yield. With use expected to decline in 1993, and stocks expected to rise, prices may fall below $3.00. CBO expects deficiency

payment rates for the 1993 crop to rise to $1.14 per bushel and deficiency payments for the 1993 crop to reach $2.1 billion, up 50 percent.

In later years, end-of-the-year stocks are expected to decline below 700 million bushels. Use is projected to rise 2 percent to 3 percent a year, but export growth depends somewhat on the response to changes in the European Community's Common Agricultural Policy. The ARP is expected to be set at 5 percent for two years and then at zero. Prices may rise gradually to $3.08 a bushel with deficiency payment rates ranging from $1.09 to $0.92 a bushel. Wheat outlays are estimated at between $1.9 billion and $1.8 billion annually for 1994 to 1998.

Rice

Rice outlays are projected to rise to $0.9 billion in 1993, up from $0.7 billion. The bulk of the costs are from deficiency payments, but almost one-quarter come from costs for marketing loans, as loans are repaid at market prices or producers receive payments to preclude using the loan program. Rice prices are expected to average below the $6.50 loan rate for crop years 1992 through 1994. In fact, prices for the remainder of the baseline period are expected to remain below the $7.58 average reached in the 1991 crop.

End-of-the-year stocks for the 1992 rice crop are estimated to rise to 38 million hundredweight, 40 percent above last year. This increase results from a combination of higher planted area--with a zero ARP--and a higher yield. For the rest of the baseline period, stocks are expected to fall and remain around 31 million to 33 million hundredweight, with prices trending upward each year. Outlays are estimated to range between $0.8 billion and $0.6 billion a year.

Cotton

CBO projects a huge jump in cotton outlays in 1993--to $2.3 billion from $1.4 billion last year. Depressed exports for the 1992 crop and increased production in 1993 pressured prices. Loan costs account for about 40 percent of the total, as prices are expected to remain below the loan rate of $0.524 per pound. Marketing loan costs are generated when producers repay loans at a market price that is below the level loaned against the crop and also when loan deficiency payments are made. These payments are given to producers not to put their crop under loan.

Cotton yields rose 6 percent for the 1992 crop, but a 10 percent ARP kept plantings and production down. However, depressed exports reduced use

and raised carryover stocks. In later years, CBO projects ARPs ranging from 7.5 percent to 15 percent to maintain stocks at the mandated 30 percent stocks-to-use ratio. Outlays are estimated to remain high in 1994--at $2.1 billion--as loan costs and deficiency payments remain high. In later years, outlays are expected to continue falling, from $1.4 billion to $0.9 billion.

Dairy

CBO estimates dairy outlays of $254 million in 1993, similar to last year's level and sharply below the $840 million recorded in 1991. In later years, annual dairy outlays are expected to remain near the 1993 level, ranging from $257 million to $307 million.

Net CCC removals are forecast at 8.2 billion pounds in 1993, falling to 6.9 billion by 1998 as increases in production slightly lag increases is use each year. The continuing drop in the size of the dairy herd is expected to be more than offset by increases in the annual yield of milk per cow. The receipts from assessments in the Omnibus Budget Reconciliation Act of 1990--about $200 million a year--and from sales equal about half the annual purchase costs of the program.

Other Commodities and Noncommodity Items

Other commodities generally have small annual costs or, as in the case of tobacco and sugar, small annual receipts. However, in 1993, deliveries of food to Russia under the Food for Progress program are estimated to cost around $200 million.

CCC outlays for specific noncommodity items account for $3 billion in 1993, up by 50 percent from last year. The major changes include a jump in cash subsidies for the Export Enhancement Program (EEP), as the program no longer uses commodity certificates to pay exporters; an increase in disaster payments; and a decline in interest costs. In later years, no disaster payments are assumed in the baseline. Also, since no agreement on the General Agreement on Tarrifs and Trade is assumed in the baseline, CBO projects that EEP spending will continue at levels of $1 billion for 1994 and 1995, dropping slowly in later years.

The Market Promotion Program was constrained to $148 million for 1993 in appropriation legislation, but for later years the baseline assumes a return to the mandated $200 million annual level. Net interest costs are projected at $200 million to $250 million a year.

The Export Credit Guarantee Program

Other accounts that used to be part of the CCC and are related to CCC outlays include the liquidating and subsidy accounts of the Export Credit Guarantee program. The liquidating account reflects the net cash outlays for defaults on guarantees made before 1992, and the subsidy account reflects the estimated net present value of the cost of annual loan guarantees beginning in 1992. Costs in the liquidating account are estimated at $764 million in 1993, largely reflecting payments to banks on defaulted loans made to the states of the former Soviet Union. Another $558 million in net outlays is projected for 1994. Thereafter, net receipts are expected each year as repayments of previous defaults are made.

The cost of loan guarantees is estimated at $428 million for 1993. That assumes loan guarantees of $1.4 billion to the former Soviet states and $3.2 billion to the rest of the world during 1993. CBO assumes the rescheduling of debts by Russia and other former Soviet states in 1993. In later years, the subsidy cost is somewhat higher--$504 million--as the level of loan guarantees to Russia is assumed to be higher than in 1993. Also, at the end of the baseline period, CBO assumes that an upward adjustment will be made to the estimated cost of the 1992 program to reflect the unrealistically low subsidy rate used by the Treasury for this credit program.

CBO ESTIMATES OF THE CLINTON BUDGET'S MANDATORY PROPOSALS IN AGRICULTURE

President Clinton's preliminary budget proposals outlined in *A Vision of Change for America* include cuts in eight mandatory agriculture programs within function 350. Six of those proposals change programs in the Commodity Credit Corporation account, one changes the wool program, and one changes the crop insurance program. CBO has estimated the savings from the President's proposals against its baseline at $4.9 billion for 1994 through 1998 combined.

The CBO estimate of five-year savings from the Clinton budget proposals is significantly lower than the Administration's estimate of $6.9 billion. CBO's savings estimates are lower for most of the proposals. We estimate the budgetary impact of each proposal as it affects each program crop and include likely behavioral effects on farmers--such as shifting to other crops, idling acreage, or changing participation in the programs--and the likely changes in program parameters that can be adjusted by the Secretary of Agriculture, especially the level of acreage reduction.

The Office of Management and Budget (OMB) may not be making similar adjustments. CBO also adjusted its estimates for savings to take

account of interrelationships among the proposals and probable farm restructurings.

The proposals that account for the biggest savings are changes to the commodity programs beginning with the 1996 crops, after the current farm bill expires. As a result, three-quarters of the savings from the Administration's proposals are estimated to come in 1997 and 1998 (see Table 4).

Increasing Unpaid Flexible Acres

One proposal raises the percentage of unpaid flexible or "flex" acres from the current level of 15 percent to 25 percent. This increase affects the program crops--wheat, corn and other feed grains, cotton, and rice--and reduces payments to farmers participating in the annual commodity programs. On the flexible acreage, farmers can plant their original program crop or other crops, but they would not receive deficiency payments for those acres regardless of what is planted.

For wheat and rice, CBO assumes that the Secretary would set the annual acreage reduction percentages at zero for the 1996 through 1998 crops, meaning those participants would lose 12 percent of payments.

TABLE 4. ESTIMATE OF CLINTON BUDGET'S MANDATORY PROPOSALS IN FUNCTION 350--AGRICULTURE (By fiscal year, in millions of dollars)

	1994	1995	1996	1997	1998	Total
CBO Estimates of Outlay Changes from the Baseline						
Increase unpaid flexible acres to 25 percent in 1996	0	0	-323	-801	-923	-2047
Eliminate 0/92 in 1996	0	0	-164	-406	-467	-1037
Increase assessments on nonprogram crops in 1996	0	0	-149	-235	-260	-644
Crop insurance reform	-14	-56	-99	-144	-207	-520
Extend Market Promotion Program cut	-26	-52	-52	-52	-52	-234
Eliminate deficiency payments to those with off-farm income above $100,000	-26	-55	-60	-61	-60	-262
Limit wool to $50,000	0	-42	-32	-28	-27	-129
Eliminate honey subsidies	-34	-14	-6	-5	-3	-61
Total	-99	-219	-884	-1733	-1999	-4934

SOURCE: Congressional Budget Office (March 1993).

That is, payments would be made on 75 percent of base acres instead of 85 percent. For corn, the loss of payments would be slightly higher at 13 percent, since CBO assumes that a 7.5 percent ARP would be used in the 1996 through 1998 crops. Thus, farmers would lose payments of an additional 10 percent over the maximum base of 77.5 percent that is assumed for acres eligible for payment.

The increase in unpaid flex (triple-base) acres saves an estimated $2.0 billion from 1996 through 1998. This estimate is very uncertain because behavioral responses are difficult to gauge for major changes. This proposal affects all program crops, but relative prices among them would change, with changes varying by region.

Moreover, prices of program crops would change relative to nonprogram crops, such as soybeans, hay, fruits, vegetables, and others. CBO assumes a limited shift of the additional flex acres out of the original program crops, based on recent responses of producers to the 1990 legislation that introduced the current level of 15 percent of flex acres. Other shifts assumed in the CBO analysis include small reductions in base acres and participation rates because of the reduced deficiency payments and increased underplantings in some areas.

Eliminating the 0/92 and 50/92 Programs

The Administration has also proposed eliminating the 0/92 and 50/92 programs beginning with the 1996 crop years. Current law allows a producer who is participating in a commodity program to receive deficiency payments for acreage the producer idles voluntarily, up to 100 percent of wheat and feed grain acres (the "0/92" program), but only up to 50 percent of rice and cotton acres (the "50/92" program). A substantial amount of acreage--estimated at almost 12 million base acres in 1996 and much higher in subsequent years--is estimated to fall into this category in the baseline.

In estimating the savings that should accrue from not paying the deficiency payments on these acres, CBO adjusts estimates of yield on the assumption that the additional planted acres are lower-yielding than those in the baseline. It also increases ARPs to offset increased acreage and production.

CBO estimates the savings from eliminating the 0/92 and 50/92 programs at $1.0 billion for 1996 through 1998. This amount includes the interaction with the proposal to increase flex acres, and the combined savings would be less than the sum of the individual proposals.

Increasing Assessments on Nonprogram Commodities

The next largest saver among the eight mandatory proposals is the increase in assessments for nonprogram crops beginning with the 1996 crop years. This proposal corresponds with the increase in unpaid flex acres for program crops from 15 percent under current law to a proposed 25 percent--a 67 percent increase. However, the impacts on producers may be quite different. CBO estimates that savings from a 67 percent increase in assessments would be $644 million for 1996 through 1998. Most of the increase comes from dairy assessments.

Commodities covered by this proposal include sugar, tobacco, peanuts, wool and mohair, soybeans, and dairy products. The estimate of savings results from a 67 percent increase in the dollar value of assessments currently assumed to be collected in the baseline for those commodities. However, actual savings could vary depending on how the assessments were levied and the behavioral response of the producers. For instance, a large increase in the fee for soybean loan placements could result in a reduced volume of soybeans being put under loan and could push soybean assessments lower than those assumed in the baseline. However, a heavy increase could also affect loan placements for corn on farms growing both commodities, as farmers attempt to generate cash at harvest at the lowest cost.

Reforming Crop Insurance

The President is proposing to replace the current crop insurance program with an expanded version of the current pilot program for area-yield soybean insurance. CBO estimates that this proposal would save $520 million in the Federal Crop Insurance Fund from 1994 to 1998. The new program would offer a different insurance package--one that would tie payments to losses in yield for the county as a whole and not on the individual farm.

Many of those familiar with the pilot program feel that adequate data are not yet available to generate large benefits from expanding the pilot program. To realize large savings the agency would have to set premiums accurately by crop and region. CBO estimates that the annual loss ratio indemnity payments divided by premiums--in the program could fall slowly if the program is expanded gradually and if premiums are set based on actuarial data. CBO assumes that the loss ratio would fall from the 1.35 level in the baseline for 1994 and later years to 1.1 by 1998.

CBO held both the level of insured acreage and average premium rates at baseline levels in pricing this option. Nevertheless, large changes could occur in both of these variables. If premiums are set on an actuarially sound basis, many producers who face increased rates could drop out of the

program. Since the crop insurance program runs at a cost--with premiums subsidized at 25 percent--a drop in enrollment in the program would save outlays. Conversely, participation could rise based on changes in premiums.

Cutting the Market Promotion Program

CBO estimates that the proposed cuts in the Market Promotion Program would save $234 million from 1994 through 1998. For fiscal year 1993, the program is limited to $148 million, but under current law an annual program minimum is set at $200 million in later years. This proposal would cap future annual levels at the 1993 level.

Eliminating Payments to Those with Off-Farm Incomes Above $100,000

CBO estimates that the proposal to eliminate deficiency payments and program benefits to those with off-farm incomes above $100,000 will save $262 million from 1994 to 1998. Tax data compiled several years ago implied that roughly 2 percent of total deficiency payments went to those with off-farm incomes above $100,000.

That percentage would overstate potential savings, however, because past experience indicates that farmers are likely to restructure their operations to avoid a loss of benefits from payment limitations. CBO's estimate assumes that a significant amount of restructuring would occur, particularly since the bulk of those affected would tend to have off-farm incomes close to the cutoff of $100,000. Types of restructuring include cash leasing of farmland, so that tenants collect the deficiency payments rather than the owner, reorganizing off-farm holdings to shift tax incidence, and moving income into a future year.

Limiting Wool Payments to $50,000 per Person

Similar reasoning affected the CBO estimate of savings from limiting payments in the wool and mohair programs to $50,000 per person. CBO estimates savings of $129 million from 1994 through 1998. The proposal to cap the payments could affect 35 percent of wool and mohair program payments, but savings would be limited by restructuring of farm operations.

68-362 O - 93 - 8

Eliminating the Honey Program

The last mandatory proposal affecting function 350 is to eliminate the honey program beginning with the 1994 marketing year. CBO estimates that five-year savings of $61 million could be realized. Savings to the CCC come from not making new loans in 1994 and subsequent years. Savings in the first year would be $34 million because CBO expects that 1993 loans would still be repaid at the market price, just as in the baseline.

OUTLOOK FOR U.S. AGRICULTURE AND EFFECTS OF PRESIDENT CLINTON'S PROPOSED CHANGES FOR AGRICULTURE

Testimony Provided to the
House Agriculture Committee
General Farm Commodities Subcommittee

March 23, 1993

Food and Agricultural
Policy Research Institute (FAPRI)
101 S. Fifth St.
Columbia, MO 65201
314-882-3576
314-884-4688 (FAX)

Center for National Food and Agricultural Policy
Department of Agricultural Economics
University of Missouri, Columbia

Outlook For U.S. Agriculture And The Effects Of President Clinton's Proposals For U.S. Agriculture

Introduction

First, thank you for the opportunity to appear before the Subcommittee. The desire to look into the future, to try to ascertain the longer term effects of policy options is what we at the Food and Agricultural Policy Research Institute (FAPRI) feel is critically important to developing good policy.

We will present two items today. The first will be a quick review of our baseline -- our constant policy outlook for U.S. agriculture. The second will be the effects of the agricultural portions of the Clinton deficit reduction package. We are continuing to work on the implications of reducing interest rates and the possible benefits for agriculture plus likely consequences of the energy tax, inland waterway user fees or other general economic provisions of the package and their effects on agriculture. We received these general economic forecasts from the Wharton Econometric Forecasting Associates (The WEFA Group) last Friday. The changes in the general economy will be added to our analysis and we will deliver that analysis to staff and members in the near future. If possible, we could submit that report for the record for this hearing. Consequently our presentation today is limited to an overview of the baseline, plus possible implications of the agricultural portions of the Clinton deficit reduction plan.

Outlook For U.S. Agriculture

In response to your questions on the outlook for U.S. agriculture, FAPRI develops a long term baseline for U.S. and world agriculture every year. The baseline undergoes an extensive review process, as does CBO, and is revised subject to that review. We delivered that baseline to staff of both the House and Senate on March 3rd and 4th, with separate briefings for USDA and the commodity groups. We have distributed copies of the documents used by FAPRI staff during those briefings.

We include our baseline supply and use tables on all the major commodities in the briefing documents discussed earlier.

Major Uncertainties

After developing that baseline, we try to step back and determine what the major factors are that will have the most significant impact on U.S. and world agriculture. We have identified several major issues, however the two top contenders are the former Soviet Union (FSU) and reform of the European Community's Common Agricultural Policy. The FSU is in the middle of a depression, deeper than that suffered by the U.S. in the 30's. This will significantly affect their consumption patterns, in particular those related to meat. Relative to their income levels, the FSU citizenry has had a very high level of meat consumption. In 1989, data suggest that per capita meat consumption was near 100 pounds. (U.S. meat consumption in 1993 is expected to total 207 pounds per capita) We project FSU consumption to fall to just over 60 pounds per capita by 1996.

As meat consumption falls, animal numbers are also expected to decline. Cattle and hog inventory numbers within the FSU should decline from nearly 200 million head in 1990 to around 115 million by 1997. Therefore, their demand for feed grains and feed wheat also will decline. We look for total grain, oilseed and oilseed product import requirements for the FSU to decline from over 31 million metric tons (MMT) for the 92/93 marketing year to around 16 MMT by 1995 -- a 48% decline.

Offsetting this decline in demand by the FSU are reforms of the European Community's Common Agricultural Policy. For the 1993 crop year, the Community will implement a 15% setaside program, and will reduce the level of financial support provided to their producers. As in other baselines that assume a continuation of policies, the FAPRI baseline incorporates the Community's reform package and carries it forward. The setaside rate is adjusted downward in future years to maintain particular stock levels. However, the overall change in policy reduces the Community's level of exportable grain supplies. For example, barley exports decline from 9.3 MMT in 92/93 to 4.0 MMT in 95/96 and wheat exports fall from 21.1 MMT in 92/93 to 11.8 MMT in 95/96.

These two factors, declining demand from the FSU and reduced exports from the European Community almost offset each other. In general, this allows stable U.S. exports of grains and oilseeds and marginal increases for wheat and feed grains exports. An error in our forecast on either side -- even weaker demand from the FSU, or noncompliance by the Community with their own plan -- would quickly worsen this picture. Conversely, if the FSU demand remains strong, or if the Community continues with 15% setaside rates, then the picture would substantially brighten.

World Grain and Oilseed Trade

Other short- and long-term effects will influence world trade in grains and oilseeds. While demand in the FSU will remain slack, feed-grain demand in China and other Asian countries is expected to continue growing. Though China currently exports feed grains, it is expected that internal demand will grow to absorb essentially all of China's domestic production by the end of the decade, changing China from a net exporter to self-sufficiency by the end of the forecast period. Thailand is expected to increase internal consumption substantially, and shift from a net exporter to a net importer of feed grains. In total, demand growth in Asia will add nearly 20 MMT to world feed grain trade by the 2001/02 marketing year.

World trade in soybeans will continue to show modest growth, with world trade growing from 26.3 MMT in the 1991/92 marketing year to 32.0 MMT by 2001/02. The U.S. share of world trade in soybeans is expected to continue to grow, with the major increase in demand coming from Taiwan, Mexico and a group of other importers. Soybean meal trade is also expected to increase, although U.S. export levels are essentially static. Brazil and Argentina are expected to gain the majority of the increase in world meal demand.

Wheat trade is expected to increase from the low levels of 1993/94. Demand growth stems from a number of sources -- Latin America, North and other African countries, the Middle East,

China and high-income East Asia. Only sharply lower wheat demand from the FSU precludes a fairly robust wheat trade picture; however, the loss of a 20 MMT market is difficult for the rest of the world to absorb. Australian trade picks up subsequent to the short crop problems of 1991/92 and 1992/93, and U.S trade share increases to and holds at the 40% level.

Vietnam dominates the growth in rice exports, recovering its position as the second largest exporter in world rice markets. The U.S. is expected to provide essentially static export levels, moving from 1.9 MMT in 1991/92 to 2.0 MMT in 2001/02.

U.S. Crop Outlook
Our outlook for U.S. agriculture, particularly for the crops sector, is mixed. Lack of international demand growth dominates much of the U.S. crops picture. In the short-term, the large 1992/93 corn crop has changed the projected corn stock situation from tight to adequate; however, wheat stocks remain tight. Corn yields in 1992/93 were at a record high of 131.4 bushels per acre, well above trend. In fact, all four feed grains set yield records in 1992/93, an event that has not occurred since the 1960's. These high yields, coupled with plantings of more than 79 million acres, produced a record corn crop and doubled corn ending stocks. This has led to reduced corn prices.

For other crops, the short-term picture is dominated by large supplies. Soybean yields were also up in 1992/93, and bean stocks should end the 1992/93 marketing year at over 350 million bushels. Bean exports were up in 1992/93, with total use up almost 80 million bushels. However, the increased demand is not expected to offset the increased supply, thereby depressing prices.

Rice production and supplies also rose in 1992/93, growing to almost 180 million cwt. Export growth and continued strength in the domestic market have offset some of the increased supply. Despite this, stocks of rice will be up by nearly a third in 1992/93.

Cotton stocks have also increased. Yield increases offset some of the reduction in plantings brought on by an increase in the ARP rate from 5% in 1991/92 to 10% in 1992/93. Cotton production was off less than 600,000 bales in 1992/93. Continued strength in the domestic market offset some of the decline in export demand; however, cotton stocks increased in 1992/93 by almost 20%.

Wheat area increased in 1992/93 in response to a change in the ARP rate from 15% to 5%. Higher yields also contributed to increased production; however lower beginning stocks reduced the total supply increase to less than 100 million bushels. Domestic demand and export demand combined to nearly equal the increased production, leaving wheat ending stocks for 1992/93 at less than 500 million bushels.

In general, these increased supplies are putting pressure on all grain, oilseed and fibre prices. Only wheat prices are expected to average higher in 1992/93 than 1991/92 levels, all others will be off by varying degrees.

In the longer run, the crop picture runs at a relatively steady state until Conservation Reserve Program (CRP) acreage begins returning to production. CRP contracts begin expiring in 1996/97, but it is not until 1997/98 that significant amounts of acreage return to production. Corn plantings, for example, are expected to hold in the 73 million to 74 million acre range through 1996/97, but plantings increase by 4 million acres in 1997/98. This is partly due to a reduction in ARP rates from 10% to 7.5%, but 2.2 million acres of the increase plantings are attributed to expired CRP contracts. Wheat plantings also stay in the 72 million to 74 million acre range through 1996/97, then increase to over 75 million acres in 1997/98 and to more than 78 million acres by 2000/01.

This leaves the stock situation fairly static in the United States through much of the projection period. Feed-grain stocks for example, decline marginally through 1996/97 to approximately 1,800 million bushels, and then hold around the 1,800 to 1,900 million bushel level. At the same time, total demand for corn increases from 8,200 million bushels in 1993/94 to nearly 9,600 million bushels in 2001/02. Domestic demand accounts for roughly 60% of the total growth.

The oilseed complex shows some improvement in the long-term, with overall demand up by more than 10% over the projection period. This moderate growth is driven by both domestic and export demand. As CRP contracts expire, soybean plantings also pick up toward the end of the period, exceeding 65 million acres in the last three years of the projection period. Soyoil use is dominated by domestic demand, but per capita use of soyoil is nearly constant during the period. With the broiler industry increasing its share of consumer meat expenditures, meal use increases relative to other feed grains. Exports also grow, but the dominant increase in meal demand is from the domestic market.

Wheat domestic use shows modest growth with both increased food and feed use. Export demand, as already indicated, grows from fairly low levels (1,133 million bushels in 1993/94) to nearly 1,500 million bushels by 2001/02. However, this is less than the nearly 1,600 million bushel export level observed in 1987/88 and much less than the record 1,771 million bushels exported in 1981/82. Consequently wheat prices remain weak in 1993/94 and 1994/95. Some strength returns in 1995/96, and prices are expected to hold in the $3.25 to $3.50 per bushel range.

Rice plantings will hold near the 3 million acre level, with very little variance in planted area expected. Domestic use will increase by nearly 10 million cwt over the next ten years, while export demand should decline by nearly 4 million cwt in the face of increased competition, especially from Vietnam. Even with only modest increases in total demand, rice prices should hold in the $7.00 per cwt to $8.00 per cwt range for the majority of the period.

Cotton plantings are expected to fall in 1993/94 largely in response to lower prices in 1992/93. Cotton area should remain close to the 13 million acre level through the middle of the decade, increasing to nearly 14 million acres by 2001/02. Domestic use will hold above the 10 million bale level beginning in 1993/94.

U.S. Livestock Picture
Overall consumption of meats in the U.S. is expected to increase modestly over the next ten years, with only marginal declines in 1994 and 1999. Rising from 204.5 pounds per capita in 1992, meat consumption is expected to exceed 215 pounds per capita in 2001. Beef consumption continues its path of slow decline while pork consumption remains relatively steady at around 52 pounds per capita. As in the past, broilers continue to capture an ever larger share of the meat market, rising from 67 pounds per capita in 1992 to nearly 80 pounds per capita by 2001. Turkey consumption also continues to increase at a fairly reasonable rate.

Hog prices should go through some downside pressure in the next few years, but should recover by the middle of the decade. Cattle prices as well should sag through the mid-90's but recover after the decline.

U.S. Government Costs and Net Farm Income
Commodity Credit Corporation (CCC) outlays for FY93 showed marked increases. This was partly due to shifting money out of FY92 and FY94 into FY93, as well as some unanticipated spending. Initial estimates of prices from the 1992 crop were too high; thus, the basis for advanced deficiency payments for the 1992 crop were too low. The large corn crop and reduced exports contributed to reduced commodity prices, resulting in higher total deficiency payments for the 1992 crop, increasing the level of payments made in FY93 to higher levels than earlier anticipated. Further, producers have traditionally been paid 40% of their deficiency payments at the time of sign-up. In order to improve producer's cash flow, 50% of the estimated 1993 crop deficiency payments will be made in advance, which shifts funds traditionally paid in the following fiscal year (FY94) into the current year (FY93). Disaster payments of $1.2 billion were also made in FY93. All of these factors combine to move CCC outlays on commodity programs from $8.4 billion in FY92 to $14.6 billion in FY93. Outlays are expected to decline again in FY94 and should stay below the $9 billion level for the remainder of the decade.

Farm income will fall in 1993 relative to 1992, but most of this decline will come from a change in the value of inventory. Net cash income will actually increase by $1.4 billion. Net farm income will hold in the $46-$47 billion level through 1997, with increases in the cost of farming offsetting small increases in cash receipts.

In general, this level of farm income will be adequate to hold land prices and absent a significant deterioration in the health of the general economy, will prevent a reoccurrence of the debt crisis of the mid-80's. While there are and will continue to be individual producers, and patches across the country experiencing financial problems, the overall picture is one of maintaining the status-quo.

The Clinton Agricultural Deficit Reduction Package
We have looked only at the direct agricultural portions of the Clinton deficit reduction package. We have not looked at energy taxes or other non-agricultural portions of the package. Nor have we looked at the general economic performance that may result from the package, such as reduced long term interest rates.

Agriculture is a very credit sensitive industry and any reductions in long term interest rates will aid the sector. For example, real estate interest charges to agriculture exceed $7 billion. Thus a 1% drop in long term rates should reduce real estate interest costs to the sector by more than $750 million.

On the other hand, the proposed energy tax will add to the cost of doing business. Direct petroleum, fuels and oils costs for agriculture totaled $5.45 billion in 1992, with electricity costs adding another $2.4 billion. We will need to spend more time and will need additional information from the WEFA Group before being able to discuss these effects fully.

Also, the effects of the proposed increase in inland waterways user fees will likely be spread between producers, grain handlers and importers of U.S. grains. This will require a careful sorting of the program effects to determine who will bear what portions of the increase in fees.

Our estimate of the savings from the various components of the Clinton package are given in Table I. The various provisions and the policy implications of each are discussed separately. Overall, we see the direct agricultural provisions of the package generating $4.55 billion in savings/additional revenues over the FY94-FY98 period.

0/50/92 and 25% Triple Base

The bulk of the savings from agriculture are derived from increasing mandatory planting flexibility from the current 15% to 25% and the elimination of 0/92 and 50/92 (0/50/92). Taken together, these programs generate more than $3.0 billion in savings over the period, FY94-FY98. These two policy changes must be examined together. Under provisions of current law without 0/92, producers must plant a crop to receive payments. 0/92 allows producers to receive up to 92% of their deficiency payments without planting the program crop, in this case, corn, sorghum barley oats or wheat. For cotton and rice producers under the 50/92 program, they must plant at least 50% of the permitted base to receive payments. Eliminating the 0/50/92 programs actually increases program costs. Thus, ending this program will place producers in a position where they must plant to earn program benefits. Further, if these producers also wish to maintain their acreage base for future program benefits they must plant the crop.

The baseline anticipates 4.2 million acres of wheat base enrolled in the 0/92 program for the 1996 crop year. We assume that 40% of wheat land enrolled in 0/92 does not return to production. For other crops, we assume a slippage rate of 20% -- or that 20% of baseline 0/50/92 acres will not return to production.

Continuing with the wheat example, dropping 0/92 only in 1996 generates over 100 million bushels of wheat. This reduces prices and increases deficiency payments for all wheat producers. A similar story applies for feed grains, cotton and rice. To offset this increase in plantings and production, we have assumed an increase in the setaside for most program crops by 5% to 7.5% for the 96/97 crop year and beyond. We summarize these changes in Table II. Note that it is this increase in setaside rates to all producers that generates the savings by reducing the number of acres producers receive payments on, and by reducing participation in the program. Thus,

all producers pay the cost of forcing current 0/92 and 50/92 program participants to plant a crop to receive benefits.

The increase in the triple base percentage from 15% to 25% generates savings without adjusting the setaside rate. A farm with a 100 acre oat base is now eligible to receive payments on 85 acres of that base. Under this proposal the producer would be eligible for payments on only 75 acres. (Recall that oats operate with a 0% ARP -- the percentage of the base that would be eligible to receive payments will vary by crop and by setaside level). Thus the reduction in payment acres directly reduces costs. For some crops, corn in particular, producers will increase the amount of acreage shifted out of the program crop. This should help to increase prices for that crop and will further reduce the level of deficiency payments. Here again, a portion of the savings are generated by a reduction in participation in the overall commodity programs as well.

The change in crop acreage and prices are given in Tables III and IV respectively.

Increased Assessments

We interpret the proposal to increase assessments by 67% in a manner consistent with CBO. As such, we generate similar, although somewhat lower savings levels. Again, we assume implementation of these higher assessments with the 1996 marketing year. We expect nearly $500 million of revenues from this option. The bulk of the savings come from the dairy sector. Sugar, soybean and other programs also generate small revenue increases. For soybeans, increasing the loan origination fee from 2% to 3.34% will reduce loan activity. Thus the base for calculating revenues from soybean loan origination fees is reduced from the baseline.

The dairy sector requires a special comment, as the proposal may have some other unintended effects. (Table V summarizes the effects of the proposal on the dairy sector) The 1990 Omnibus Budget Reconciliation Act (OBRA90) established an assessment of $0.1125/cwt on all milk produced for the 1992 through 1995 marketing years. Further, OBRA90 allows producers who do not increase their milk production over the previous year's level to apply for a reimbursement of their assessments. Further, producers who increase production face a higher assessment rate to generate revenues equivalent to an $0.1125/cwt assessment on all milk produced. In 1992, 32% of the 1991 assessments were refunded. The average net assessment for producers increasing milk production in 1993 will be close to $0.15/cwt.

Under the Clinton package, the assessment rate used for all milk would increase from $0.1125/cwt to $0.1879/cwt. Given the higher assessment rate, we have assumed that 40% of the producers would apply for a refund. This generates even higher assessments on producers who increase production. The assessment rate paid by producers who increase production will increase to more than $0.30/cwt by 1998. In essence this creates a two-tier pricing system for milk producers. Those who do not increase production, get a net price that is $0.25 to $0.30/cwt higher than those who do.

Further, we expect some producers to increase their 1995 production relative to the baseline in anticipation of the higher assessment rates. This will allow them to begin 1996 with a higher base and possibly avoid paying the higher rate of assessment proposed in the package. Thus, we have increased milk production in 1995 relative to the baseline, and have increased the cost of the dairy program for that year. This offsets some of the increase in revenues generated by the assessments.

Elimination Of The Honey Program

From a budgetary standpoint this is a fairly straightforward calculation. We have not had sufficient time to develop a full assessment of the effects of ending the program on the honey sector itself.

Market Promotion Program (MPP) Freeze At 1993 Levels.

Again, this is a fairly straightforward comparison of one baseline level to another. Our baseline held MPP spending at $25 million over current spending levels beginning in FY95. Thus, we generate $25 million per year in savings.

$50,000 Wool and Mohair Payment Limit

We assume that the change in payment limits on wool and mohair applies to combined wool and mohair payments and is not a separate limit for wool and another for mohair. On average in 1990 and 1991, 37% of wool and mohair payments went to producers receiving over $50,000 in payments. We have assumed a large amount -- 80% -- of producers will restructure to comply with the new payment limit. Based on conversations we have had with several individuals in the sector, only the largest recipients, namely slaughtering facilities and a few others will not be capable of restructuring. We expect only $14 million per year in savings.

$100,000 Means Test On Off Farm Income

We have taken the CBO estimate for this provision. Developing our own score would require obtaining access to data that are currently not public on income tax forms. As with the wool and mohair limitation proposal, we would expect producers to restructure to comply with the restriction. We would also expect the nature of land tenancy to shift more from crop share to cash rent.

Grazing Fees

While not totally within USDA, the Clinton plan proposes to "increase grazing fees on public lands"[1] to generate $35 million in annual federal revenues in FY97. Revenues from grazing fees are shared at a rate of 2 to the state government for each 1 to the federal government. It will require raising the average rental rate per animal unit month (AUM) from $1.86 in 1993 to nearly $9.50/AUM in 1997 to generate the $35 million in federal revenues required under the proposal. This is close to the rates charged on private lands now for grazing.

---

[1] "A Vision Of Change For America" U.S. Government Printing Office February 17, 1993. pp. 76 and 77.

Raising the grazing fees will require the cattle industry to adjust. Regional adjustments will be much larger than those shown at the national level. Table VI summarizes these changes on the beef sector. Currently up to 20% of the nations beef cows spend some time each year on public lands. Many ranchers and farmers will continue to use public lands and most animals that leave will likely find private pastures. There should not be a major change in meat supplies. However there will be some marginal changes that warrant discussion.

The increase in grazing fees will cause the industry to contract. This will generate an initial increase in meat supplies as producers cut back on their herds. For example, meat expenditures will fall relative to the baseline by $1.00 per capita in 1995. (The baseline projected meat expenditures of $383/capita for 1995) This is a small change, but does translate into nearly $250 million in savings to the consumer.

After the initial adjustment period, the size of the cattle herd will fall and less beef will come to the market. This will generate an increase in the price of beef and a marginal reduction in the consumption of beef. By 2000, meat expenditures will increase by nearly $2.50/capita, due mainly to the higher beef prices, from $415/capita to $418/capita. Again, this is not a major increase for the individual, but it does translate into nearly $625 million of additional consumer costs. This is an interesting comparison when one recognizes that the budgetary goal was to generate $35 million in federal revenues in FY97.

Crop Insurance

We have not conducted an evaluation of the effects of changing the crop insurance program on the agricultural sector. As was the case for the $100,000 means test proposal, we take the CBO score. As our baseline assumes "average" weather, we must assume that disasters do not occur, though we recognize that in reality they do occur. By mandated redesign the proposal will reduce government outlays, therefore reducing the level of government payments to producers, and reducing farm income. The question, not answered by this study, is by how much.

Effects Of The Program On Farm Income

The aggregate effects of the proposals on farm income are shown in Table VII. As mentioned earlier, the proposals generate most of their savings or increased revenues through the crop programs and dairy. Crop prices are basically the same as those in the baseline, as is the level of overall plantings. In essence the reduction in government payments translates into a reduction in farm income. Crop receipts are down only slightly (an average of $260 million). Livestock receipts fall initially in 1994 and 1995, but recover in 1997 and 1998. Over the 5 years, 1994-1998, livestock receipts differ from baseline levels by only $7 million.

Government payments fall substantially, especially in 1997 and 1998. In 1997 payments fall by more than 22%. In 1998 payments are down by $1.5 billion, or 24.5%. Net farm income falls by an average of 2%, or $830 million. The reductions are much larger in the last two years. Once fully implemented, farm income falls an average of $1.1 billion compared to the baseline. Again, this includes only the changes proposed in the agricultural portion of the package. It does

not incorporate new energy taxes, potential interest rate changes or other macro-economic effects.

Implications Of The Package

There are some general concerns about these specific proposals. It does reduce government outlays by nearly $5.0 billion over the five years. In percentage terms, agriculture is making a substantial donation to deficit reduction.

Further, there are some policy implications of the proposal that need to be recognized or at least discussed before their adoption.

For example, eliminating 0/50/92 generates savings only by increasing the level of setaside on all producers in the program. It has often been used as a disaster assistance program. Producers who cannot plant a crop due to dry or wet weather often use 0/50/92 to receive deficiency payments as at least a portion of the income they would have otherwise received. Eliminating 0/50/92 will require these same producers to "dust in" or "fly in" seed on the field in order to certify to their ASCS office that a crop was in fact planted in order to receive deficiency payments. In addition, it is believed that 0/50/92 is a viable option for some land upon the expiration of the Conservation Reserve Program contracts. In many cases this is marginal land. Requiring producers to plant that acreage in return for benefits may have significant conservation implications.

The issue of the consumer costs associated with raising grazing fees has already been discussed. Consumer expenditures on dairy products will also rise under the proposal.

Finally, there are additional conservation concerns that should also be raised. Under the Food Security Act of 1985, corn producers in the program received an average of $60/acre more than did producers outside of the program. Over the life of the FACTA, producer returns in the program should average $40/acre more than those outside of the program. Under an extension of the current law, FAPRI would expect that participant returns would exceed non-participant returns by an average of $31/acre. Under the Clinton proposal this difference will drop to an average of $18/acre. Conservation compliance, sodbuster and swampbuster provisions apply only to producers who voluntarily agree, or who intend at some point in the future to, participate in the commodity programs. Participation rates for corn under the baseline ranged from 67% to 75%. This declines to a range of 62% to 69% under the Clinton plan. It would also take only a modest increase in market prices for the difference to erode completely away.

Conclusion

Budget reductions must come from somewhere. Agriculture is an obvious target. However there are a number of other factors that can and should be considered when selecting the appropriate policy option. Congress will go through a series of hearings and markups in order to determine the methods by which the budget savings will be met. We stand ready at FAPRI to continue to provide you and the public at large with analysis to aid in that decision process.

(Attachments follow:)

03/22/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE I. Clinton's Plan for Reducing Agricultural Spending
(Projected Savings from Baseline Costs)

	FY-94	FY-95	FY-96	FY-97	FY-98	TOTAL
			(Million Dollars)			
Increase Flex from 15%-25% and Eliminate 0/92 and 50/92	0	0	501	1,206	1,339	3,046
Increase Assessments 67%	0	0	125	185	184	494
Eliminate the Honey Program	36	10	10	10	10	76
MPP Freeze at 1993 levels	0	25	25	25	25	100
$50,000 Wool and Mohair Payment Limit	0	14	14	14	14	56
$100,000 Means Test on Off-Farm Income *	26	55	60	61	60	262
Crop Insurance, Area/Yield *	14	56	99	144	207	520
Total of these Programs	76	160	834	1,645	1,839	4,554
Grazing Fee Increase	5	13	22	36	35	111

* Congressional Budget Office estimates

03/21/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE II. Impacts of the Clinton Plan on ARP Rates

	94/95	95/96	96/97	97/98	98/99
Wheat					
Baseline	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario	5.0%	5.0%	12.5%	12.5%	12.5%
Change	0.0%	0.0%	7.5%	7.5%	7.5%
Corn					
Baseline	10.0%	10.0%	10.0%	7.5%	7.5%
Scenario	10.0%	10.0%	15.0%	12.5%	12.5%
Change	0.0%	0.0%	5.0%	5.0%	5.0%
Cotton					
Baseline	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario	5.0%	5.0%	10.0%	10.0%	10.0%
Change	0.0%	0.0%	5.0%	5.0%	5.0%
Rice					
Baseline	0.0%	0.0%	0.0%	0.0%	0.0%
Scenario	0.0%	0.0%	5.0%	5.0%	5.0%
Change	0.0%	0.0%	5.0%	5.0%	5.0%
Sorghum					
Baseline	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario	5.0%	5.0%	12.5%	12.5%	12.5%
Change	0.0%	0.0%	7.5%	7.5%	7.5%
Barley					
Baseline	5.0%	5.0%	5.0%	5.0%	5.0%
Scenario	5.0%	5.0%	12.5%	12.5%	12.5%
Change	0.0%	0.0%	7.5%	7.5%	7.5%
Oats					
Baseline	0.0%	0.0%	0.0%	0.0%	0.0%
Scenario	0.0%	0.0%	0.0%	0.0%	0.0%
Change	0.0%	0.0%	0.0%	0.0%	0.0%

03/21/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE III. Impacts of the Clinton Plan on Planted Acreages

	94/95	95/96	96/97	97/98	98/99
Wheat			(Million Acres)		
Baseline	72.0	72.5	74.0	75.3	77.6
Scenario	72.0	72.5	74.1	75.6	78.0
Change	0.0	0.0	0.1	0.3	0.4
% Change	0.0%	0.0%	0.2%	0.4%	0.5%
Corn					
Baseline	73.3	73.0	73.9	77.9	77.5
Scenario	73.3	73.0	73.8	77.6	77.6
Change	-0.0	-0.0	-0.1	-0.2	0.1
% Change	-0.0%	-0.0%	-0.2%	-0.3%	0.1%
Soybeans					
Baseline	60.4	62.0	62.6	64.2	64.3
Scenario	60.4	62.0	62.9	64.3	64.4
Change	-0.0	-0.0	0.3	0.1	0.1
% Change	-0.0%	-0.0%	0.4%	0.2%	0.2%
Cotton					
Baseline	12.98	12.91	13.01	13.41	13.87
Scenario	12.98	12.92	12.88	13.40	13.87
Change	0.00	0.00	-0.13	-0.00	-0.00
% Change	0.0%	0.0%	-1.0%	-0.0%	-0.0%
Rice					
Baseline	3.02	3.02	3.03	3.03	3.06
Scenario	3.02	3.02	3.09	3.09	3.12
Change	0.00	0.00	0.05	0.06	0.06
% Change	0.0%	0.0%	1.8%	1.9%	2.1%
Sorghum					
Baseline	12.7	12.1	12.4	13.3	13.3
Scenario	12.7	12.1	12.4	13.3	13.4
Change	-0.0	-0.0	-0.0	-0.0	0.1
% Change	-0.0%	-0.1%	-0.3%	-0.1%	0.9%
Barley					
Baseline	7.9	7.6	7.8	8.4	8.7
Scenario	7.9	7.6	7.7	8.4	8.8
Change	-0.0	0.0	-0.1	-0.0	0.1
% Change	-0.0%	0.0%	-1.1%	-0.3%	1.2%
Oats Harvested					
Baseline	5.2	5.0	4.7	4.9	4.9
Scenario	5.2	5.0	4.8	5.0	4.9
Change	-0.0	0.0	0.1	0.1	0.1
% Change	-0.0%	0.0%	2.7%	1.5%	1.5%

03/21/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE IV. Impacts of the Clinton Plan on Farm Prices

	94/95	95/96	96/97	97/98	98/99
Wheat			(Dollars per Bushel)		
Baseline	2.91	3.26	3.35	3.31	3.15
Scenario	2.91	3.26	3.32	3.30	3.13
Change	-0.00	-0.00	-0.03	-0.02	-0.02
% Change	-0.1%	-0.1%	-0.8%	-0.5%	-0.5%
Corn					
Baseline	2.11	2.26	2.36	2.22	2.17
Scenario	2.10	2.26	2.34	2.23	2.15
Change	-0.00	-0.00	-0.02	0.01	-0.02
% Change	-0.1%	-0.0%	-0.9%	0.3%	-0.8%
Soybeans					
Baseline	6.00	6.05	6.03	5.69	5.68
Scenario	5.99	6.04	5.97	5.62	5.62
Change	-0.00	-0.01	-0.06	-0.07	-0.06
% Change	-0.1%	-0.1%	-0.9%	-1.3%	-1.1%
Cotton			(Dollars per Pound)		
Baseline	0.551	0.583	0.587	0.585	0.583
Scenario	0.551	0.587	0.591	0.587	0.585
Change	-0.000	0.003	0.004	0.002	0.002
% Change	-0.0%	0.6%	0.7%	0.4%	0.3%
Rice			(Dollars per Hundredweight)		
Baseline	7.14	7.48	7.55	7.65	7.67
Scenario	7.14	7.48	7.51	7.65	7.63
Change	-0.00	-0.00	-0.04	-0.01	-0.04
% Change	-0.0%	-0.0%	-0.6%	-0.1%	-0.5%
Sorghum			(Dollars per Bushel)		
Baseline	1.98	2.15	2.23	2.05	2.03
Scenario	1.97	2.15	2.22	2.05	2.00
Change	-0.00	-0.00	-0.02	0.01	-0.02
% Change	-0.2%	-0.1%	-0.7%	0.3%	-1.2%
Barley					
Baseline	2.02	2.18	2.22	2.09	2.00
Scenario	2.02	2.18	2.20	2.08	1.97
Change	-0.00	0.00	-0.01	-0.01	-0.03
% Change	-0.1%	0.2%	-0.6%	-0.4%	-1.4%
Oats					
Baseline	1.35	1.32	1.39	1.30	1.24
Scenario	1.35	1.32	1.35	1.27	1.21
Change	-0.00	0.00	-0.03	-0.04	-0.04
% Change	-0.1%	0.3%	-2.2%	-2.7%	-3.1%

03/22/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE V. Impacts of the Clinton Plan on the Dairy Sector

	1994	1995	1996	1997	1998
Dairy Cows			(Million Head)		
Baseline	9,646	9,597	9,444	9,390	9,300
Scenario	9,646	9,626	9,446	9,377	9,290
Change	-0	30	2	-13	-10
% Change	-0.0%	0.3%	0.0%	-0.1%	-0.1%
Milk Production			(Billion Pounds)		
Baseline	153.6	154.9	155.7	157.6	159.0
Scenario	153.6	155.3	155.7	157.4	158.8
Change	-0.0	0.3	0.0	-0.2	-0.2
% Change	-0.0%	0.2%	0.0%	-0.1%	-0.1%
All Milk Price			(Dollars per Hundredweight)		
Baseline	13.04	12.76	13.06	12.67	12.81
Scenario	13.04	12.60	13.05	12.81	12.93
Change	0.00	-0.16	-0.01	0.13	0.12
% Change	0.0%	-1.3%	-0.1%	1.1%	1.0%
Net Returns					
Baseline	3.46	2.95	2.99	2.46	2.61
Scenario	3.46	2.79	2.88	2.47	2.60
Change	0.00	-0.16	-0.10	0.01	-0.02
% Change	0.0%	-5.5%	-3.5%	0.2%	-0.7%
Assessments					
Baseline	0.16	0.16	0.16	0.16	0.16
Scenario	0.16	0.16	0.25	0.29	0.30
Change	0.00	0.00	0.09	0.13	0.14
% Change	0.0%	0.0%	57.1%	79.7%	88.6%

03/22/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE VI. Impacts of the Clinton Plan on the Beef Sector

	1994	1995	1996	1997	1998
Cattle and Calves			(Million Head)		
Baseline	104.1	105.4	105.8	104.8	104.0
Scenario	104.1	105.2	105.2	103.9	102.8
Change	0.0	-0.2	-0.6	-0.9	-1.1
% Change	0.0%	-0.2%	-0.6%	-0.8%	-1.1%
Beef Cows					
Baseline	35.54	35.96	35.98	35.07	34.10
Scenario	35.54	35.81	35.67	34.69	33.62
Change	0.00	-0.15	-0.31	-0.38	-0.47
% Change	0.0%	-0.4%	-0.9%	-1.1%	-1.4%
Beef Production			(Million Pounds)		
Baseline	24,114	24,825	25,502	25,012	24,854
Scenario	24,175	24,910	25,517	24,969	24,742
Change	60	85	15	(43)	(111)
% Change	0.2%	0.3%	0.1%	-0.2%	-0.4%
1,100-1,300# NB Direct Steers			(Dollars per Hundredweight)		
Baseline	71.40	69.16	67.48	70.70	76.50
Scenario	70.94	68.54	67.38	71.03	77.40
Change	-0.47	-0.62	-0.10	0.33	0.90
% Change	-0.7%	-0.9%	-0.1%	0.5%	1.2%
Cow-Calf Returns			(Dollars per Cow)		
Baseline	36.46	10.55	-7.23	11.05	45.89
Scenario	32.67	4.68	-9.84	11.14	49.52
Change	-3.79	-5.87	-2.61	0.09	3.63
% Change	-10.4%	-55.6%	36.1%	0.8%	7.9%
Per Capita Beef Consumption			(Pounds)		
Baseline	67.10	67.76	68.49	66.44	65.17
Scenario	67.25	67.99	68.54	66.33	64.88
Change	0.16	0.22	0.05	-0.11	-0.29
% Change	0.2%	0.3%	0.1%	-0.2%	-0.4%

03/22/93 Clinton Plan off FAPRI January 1993 Baseline

TABLE VII. Impacts of the Clinton Plan on Net Farm Income

	1994	1995	1996	1997	1998
			(Billion Dollars)		
Crop Receipts					
Baseline	83.28	86.21	88.97	90.09	90.18
Scenario	83.24	86.19	88.72	89.77	89.97
Difference	-0.04	-0.03	-0.24	-0.32	-0.21
% Difference	-0.0%	-0.0%	-0.3%	-0.4%	-0.2%
Livestock Receipts					
Baseline	87.71	88.66	90.67	90.54	93.81
Scenario	87.45	88.07	90.62	90.94	94.40
Difference	-0.27	-0.59	-0.05	0.40	0.58
% Difference	-0.3%	-0.7%	-0.1%	0.4%	0.6%
Government Payments					
Baseline	8.96	7.97	6.53	5.72	6.30
Scenario	8.94	7.91	5.82	4.43	4.76
Difference	-0.02	-0.06	-0.70	-1.29	-1.54
% Difference	-0.2%	-0.7%	-10.8%	-22.5%	-24.5%
Other Income					
Baseline	13.69	13.97	14.34	14.56	15.04
Scenario	13.67	13.93	14.34	14.59	15.08
Difference	-0.02	-0.04	-0.00	0.03	0.04
% Difference	-0.1%	-0.3%	-0.0%	0.2%	0.3%
Production Expenses					
Baseline	147.04	150.61	154.96	159.09	161.63
Scenario	146.96	150.48	154.76	158.92	161.66
Difference	-0.08	-0.13	-0.20	-0.17	0.03
% Difference	-0.1%	-0.1%	-0.1%	-0.1%	0.0%
Value of Inventory Change					
Baseline	1.04	0.83	0.83	1.50	0.32
Scenario	0.96	0.72	0.74	1.40	0.35
Difference	-0.08	-0.11	-0.10	-0.10	0.03
% Difference	-7%	-13%	-12%	-7%	8%
Net Cash Income					
Baseline	61.24	61.64	61.77	58.79	61.06
Scenario	60.99	61.10	60.96	57.72	59.83
Difference	-0.24	-0.54	-0.81	-1.07	-1.22
% Difference	-0.4%	-0.9%	-1.3%	-1.8%	-2.0%
Net Farm Income					
Baseline	47.64	47.03	46.37	43.33	44.03
Scenario	47.30	46.34	45.48	42.21	42.90
Difference	-0.34	-0.69	-0.89	-1.11	-1.13
% Difference	-0.7%	-1.5%	-1.9%	-2.6%	-2.6%

FAPRI

FAPRI 1993 Baseline Briefing Paper

Short Term/Long Term Issues

March 1993

CNFAP Report #4-93

(The complete report is held in the committee files.)

STATEMENT OF
RONALD D. KNUTSON
DIRECTOR
AGRICULTURAL AND FOOD POLICY CENTER
TEXAS A&M UNIVERSITY
BEFORE THE
GENERAL COMMODITIES SUBCOMMITTEE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee, thank you for the invitation to appear today to discuss the farm level impacts of the Administration's proposals for change in U.S. domestic farm programs. Over the past three years, the Agricultural and Food Policy Center (AFPC) at Texas A&M University has worked closely with FAPRI, at the University of Missouri, to provide an independent third party evaluation of the impacts of policy proposals as requested by the House and Senate Agriculture Committees. Our efforts also include a collaborative working relationship with the faculty of the National Institute for Livestock and Dairy Policy at Cornell University.

Funds provided by the Congress for these collaborative arrangements have allowed us to develop and maintain over 70 representative farms and ranches chosen from major production areas throughout the United States as a result of consensus discussion with your staff (Figure 1). These farms are developed by panels of producers located in the chosen areas. Normally, two farms in each production area are developed with separate panels of farmers: one is a moderate size full-time family farm, while the other is generally two to five times larger.

AFPC Briefing Series

The briefing series is designed to facilitate presentations by AFPC related to requests for specific policy impact analyses. The materials included in this package are intended only as visual support for an oral presentation. The user is cautioned against drawing extraneous conclusions from the material. In most instances, the briefing series will be followed by an AFPC working paper. AFPC welcomes comments and discussions of these results and their implications. Address such comments to:

Agricultural and Food Policy Center
Department of Agricultural Economics
Texas A&M University
College Station, Texas 77843-2124

or call 409-845-5913.

The data collected from these panels are analyzed in a whole farm simulation model (FLIPSIM) that has been developed and refined over more than a decade under the leadership of James Richardson of our faculty. The producer panel is provided pro-forma income statement, balance sheet, and cash flow statements over a five year period. The producer panel must approve the pro-forma financial statements as being representative of their operations before the farm data are used for policy analyses. Subsequently, each panel member receives all of our reports that include the representative farm they helped develop. Our goal is to update the representative farms every three years, although if a member of a panel concludes that the farm or ranch is no longer generating representative results, it is not unusual for him or her to call us. We update these farms promptly before they are again used in a report to the Congress. The panel members of the farms utilized in this study are listed in the Appendix to this testimony.

Our farm level simulations utilize the prices generated by FAPRI, and reported on previously by Bob Young. Because of the short time frame since receiving your request, we limited our analysis to those panel farms that appeared to be most relevant to the Members of this Subcommittee. The results are reported on by commodity and across commodities in the tables at the end of this testimony.

The crop results represent a combination of two proposed policy changes -- the increase in nonpaid program acres (NFA) from 15 to 25 percent under the flexibility provisions and the elimination of the 92 programs as contained in the Food, Agriculture, Conservation, and Trade Act of 1990 as amended by the Omnibus Budget Reconciliation Act of 1990, hereinafter referred to in combination as the 1990 farm bill. The proposed policy changes do

not occur until 1996; therefore, the majority of the discussion focuses on changes from the FAPRI Baseline for the period 1996 to 1998. Overall:

- Farm program payments over the years 1996-98 decline in the range of 14 to 20 percent from the baseline. This is due to a combination of the increase in nonpaid acres under the proposed higher NFA, and assumed increases in the acreage reduction requirements (ARP) resulting from the stocks-to-use triggers contained in the 1990 farm bill and the elimination of the 92 programs.
- Average net cash farm income over the 1996-98 period declines from the baseline in the range of 7 percent for the large Iowa corn/soybean farm to 360 percent for the Kansas wheat farm. Net cash farm income is a cash flow concept indicating the differences between cash crop receipts and cash expenditures. Out of net cash farm income, the farmer must pay taxes, family living expenses, principal payments, and the cost of replacing capital assets. Within each crop, there is substantial variation in the net cash farm income impacts among farms regionally and by size of farm, reflecting the diversity of U.S. agriculture.

The following comments are designed to briefly summarize the results by commodity:

- **Wheat**. As indicated in Table 1, the farm level wheat results indicate a decline in government payments in the range of 19-20 percent, not including increased costs imposed by the higher loan origination fee for sunflowers on the North Dakota farms. For the wheat farms analyzed, net cash farm incomes would decline in the range of 24 percent on the large Washington wheat/barley/dry pea farm to 360 percent on the large Kansas wheat farm. The large Kansas farm went from an average net cash farm income for the years 1996-98 of nearly $6,100 in the baseline

to a loss of over $15,800 under the proposal. These results suggest the potential for substantial financial problems developing on predominantly wheat farms. Financial pressure was already evident in the baseline without further cuts in program benefits.

- **Feed Grains**. As indicated in Table 2, the farm level feed grain results indicate a decline in government payments in the range of 18-19 percent, not including increased costs imposed by the higher loan origination fee for soybeans on the Iowa, Nebraska, and Missouri farms. During the 1996 to 1998 period, average net cash farm income for the feed grain farms would decline in the range of 7 percent for the large Iowa corn/soybean farm to 187 percent on the moderate size Nebraska predominantly corn farm. This Nebraska farm would experience an average net cash farm income decline of nearly $11,600, from -$6,200 under the baseline to a loss of over $17,800. Losses have been characteristic of smaller irrigated corn farms unable to realize the economies of size that exist in today's agriculture.

- **Cotton**. As indicated in Table 3, the farm level cotton results indicate a decline in average government payments in the range of 16-17 percent for the 1996 to 1998 period, not including increased costs imposed by the higher loan origination fee for soybeans on the Mississippi farm. Net cash farm incomes, for the cotton farms analyzed, would decline in the range of 17 percent for the large Texas Southern High Plains and moderate California cotton farms to 91 percent on the moderate Texas Southern High Plains farm. The moderate Texas Southern High Plains farm would experience an average net cash farm income decline of over $9,000, from about $10,100 to just under $1,000. Once again, smaller cotton farms appear to be unable to realize the economies of size needed to compete in today's agriculture.

- **Rice**. As indicated in Table 4, the rice results indicate a decline in government payments in the range of 14-16 percent during the 1996 to 1998 period, not including increased costs imposed by the higher loan origination fee for soybeans on the Arkansas farm. Net cash farm incomes, for the rice farms analyzed, would decline in the range of 17 percent for the Arkansas farm to 49 percent for the large California rice farm over the same period. The small decline for the Arkansas farm results from its more diversified production including rice, soybeans, and wheat.

Table 5 provides a comparison of these results for the moderate size family farm located in the largest production state for each crop. The results indicate substantial variation in impacts from crop to crop, as was noted regionally for each crop. This variation indicates the difficulty of designing a general policy prescription that will be perceived as treating all farmers fairly.

Dairy

Our dairy results likewise reflect the diversity of the industry. Our understanding of the Administration's proposal for dairy is to control budget costs by increasing the assessment on those dairy farms that increase production (referred to herein as nonparticipants), while refunding the amount of the assessment to the farms that hold production constant. Under the assumptions in the FAPRI analyses, the assessment increases from the baseline level of 12-16 cents per cwt from 1992 to 1998 to 12-30 cents under the policy designed to lower dairy program costs. As indicated in Table 6, our farm level analyses indicate that neither the moderate size 50 cow Wisconsin dairy, the moderate 100 cow Central New York dairy, nor the 2,150 cow California dairy would find it economically desirable to participate (freeze production) at the proposed higher assessment levels. That is, while the nonparticipants

realize reductions in average net cash farm income for the 1996-98 period ranging from 0 to 3 percent, the participants experience income reductions in the 4-12 percent range.

One might logically wonder why 10 percent more dairy farms might be expected to participate in the program as assumed by FAPRI if none of these representative farms find it desirable to participate. The answer lies in the diversity of the dairy industry with many small producers and many producers having a low output per cow. These are the producers which, over time, will probably exit the industry. The conclusion we draw is that while assessment programs of this type may help to control program costs, they are not very effective at curbing milk production.

(Attachments follow:)

Figure 1. Panel Farms Maintained by AFPC

WHEAT

TABLE 1: FARM LEVEL IMPACTS OF INCREASE TO 0.25 NFA AND ELIMINATION OF 92 OPTIONS

Farm	Acres		Percent Change From Baseline in	
	Total	Wheat	Government Payments	Net Cash Farm Income
Kansas	2,500	2,375	-20	-360
North Dakota	1,600	640	-19	-28
	4,000	1,760	-19	-37
Washington	1,276	584	-20	-29
	4,250	1,901	-20	-24

FEED GRAIN

TABLE 2: FARM LEVEL IMPACTS OF INCREASE TO 0.25 NFA AND ELIMINATION OF 92 OPTIONS

	Acres		Percent Change From Baseline in	
Farm	Total	Feed Grain	Government Payments	Net Cash Farm Income
Iowa	680	304	-18	-15
	1,320	563	-18	-7
Nebraska	630	513	-18	-187
	1,575	1,330	-18	-25
Missouri	1,100	240	-18	-15
	2,100	630	-18	-11
Texas	1,600	808	-19	-76
	4,500	2,051	-19	-27

COTTON

TABLE 3: FARM LEVEL IMPACTS OF INCREASE TO 0.25 NFA AND ELIMINATION OF 92 OPTIONS

	Acres		Percent Change From Baseline in	
Farm	Total	Cotton	Government Payments	Net Cash Farm Income
Texas	1,360	820	-17	-91
(S. Plains)	3,310	2,250	-17	-17
California	735	450	-16	-17
	3,150	1,800	-17	-21
Mississippi	1,470	756	-16	-39
	3,300	1,350	-16	-45

RICE

TABLE 4: FARM LEVEL IMPACTS OF INCREASE TO 0.25 NFA AND ELIMINATION OF 92 OPTIONS

	Acres		Percent Change From Baseline in	
Farm	Total	Rice	Government Payments	Net Cash Farm Income
Arkansas	1,100	425	-16	-17
California	424	400	-14	-44
	1,300	1,200	-14	-49

TABLE 5: COMPARISON OF FARM LEVEL IMPACTS OF INCREASE TO 0.25 NFA AND ELIMINATION OF 92 OPTIONS

	Acres		Percent Change From Baseline in	
Farm	Total	Major Crop	Government Payments	Net Cash Farm Income
Kansas Wheat	2,500	2,375	-20	-360
Iowa Corn	680	304	-18	-15
Texas Cotton	1,360	820	-17	-91
Arkansas Rice	1,100	425	-16	-17

68-362 O - 93 - 9

DAIRY

TABLE 6: COMPARISON OF FARM LEVEL IMPACTS OF ASSESSMENTS ON PARTICIPANTS[/1] AND NONPARTICIPANTS[/2]

Farm	Participation	Percent Change From Baseline in Net Cash Farm Income
Wisconsin 50 cows	Participant	-4
	Nonparticipant	-1
New York 100 cows	Participant	-12
	Nonparticipant	-3
California 2,150 cows	Participant	-4
	Nonparticipant	0

[/1] Participant restricts growth in milk production to receive assessment refund.
[/2] Nonparticipant does not restrict production and does not receive assessment refund.

TESTIMONY OF

T. RAY CHANCEY
NATIONAL OFFICE DIRECTOR

AMERICAN AGRICULTURE MOVEMENT, INC.

Thank you, Chairman Johnson and other members of this committee. My name is Ray Chancey. My family and I own a small farm in Dayton, Texas. Recently, I have taken the job as National Office Director for the American Agriculture Movement here in Washington, D.C. I am happy and privileged to be here before you today to comment on how the President's proposed economic package affects farmers.

Any time farmers hear the words "budget cuts", we automatically wince and grab our pocketbooks, because history has taught us that we are about to be asked to "save" more money for the budget. We used to think that "savings" meant the amount of money that we could put away for a rainy day, after we had met all our obligations. But we have come to learn that, at least from the budget standpoint, "savings" means the amount of money we are going to have to somehow learn to live without.

For instance, in the 1990 Budget Agreement alone, agriculture was forced to "save" some $13 Billion, or roughly 23% over the 5 year life of the Farm Bill. A large portion of those "savings" have come right out of the pockets of the farmers. And while we are sill trying to adjust to those "savings", we are told that we are going to have to "save" some more. We are just about to be "saved" out of business.

The American Agriculture Movement announced earlier this year that we felt that the President's Economic Package was "a step in the right direction". Certainly, when a president states that he wants to treat each sector of the economy fairly, we in agriculture would view it as a step in the right direction. However, there are aspects of the President's package that we see as contrary to the ideal of fairness.

The President has called on farmers to sacrifice more, and yet he has offered us no stimulus or investments in return. While we are willing to do our fair share to assist the President in 1993, we must ask that any additional cuts in the budget reflect the fact that, as a result of the 1990 Farm Bill, Agriculture as a whole has already sacrificed, percentage-wise, more than any other sector of the economy. To ask us to sacrifice more is one thing, but to ask us to again sacrifice more than anyone else is unfair.

The President's package has called for the elimination of the honey loan program, singling it out from all other farm programs. It is the AAM's position that no farm program should be eliminated, becaused all of them have a real purpose, and serve a real need. They help to stabilize our markets, and without them, undoubtedly many more farmily farmers will be forced out of business. To eliminate any farm program would be a disservice to all of agriculture, and to the American consumers, who are the

real beneficieries of the farm loan programs we have today.

To reduce or eliminate farm programs may be defeating the purpose for which they were designed, that being to stabilize price and supply to the consumer. In the world, we in the United States have the highest quality of food for the lowest overall cost, truly a testimony to the effectiveness of the farm programs we have. Certainly, we realize that some of our farm policies can be improved, but overall, farm programs have proven to be a good investment in the stability of the U.S. economy, and ultimately the world's economy.

In response to the question concerning a possible increase in user fees (excise taxes), on March 2, 1993, the American Agriculture Movement released a study entitled "Excise Taxes and the Rural Taxpayer". The study shows how excise taxes, or user fees, are regressive and are an unfair tax on rural Americans in general. Any increase in this type of hidden tax will only intensify the regressive tax burden on rural America, and for this reason the AAM is opposed to any increases in user fees.

I have included the executive summary in the written testimony, but in the interest of time, I would ask that this part of my testimony be entered into the record as if it had been read.

The complete study was included in a packet that was delivered to each congressional office just this past March 1 & 2 when our AAM members came to Washington. If any of you would like to have additional copies, I will be happy to provide them for you.

In closing, Agriculture is this country's greatest natural resource, and is very important to our economic well being, and our strength as a nation. Family Farmers, the backbone of this great country, are being forced out of business at record rates, and the survivors are in serious economic danger. To stay in business, we have got to be able to receive a fair return on our investment and time.

We realize that the government needs to reduce it's deficit spending, and we are prepared and committed to continue to do our fair share. However, when you go about your job of apportioning cuts in the various government programs, we ask you to keep in mind that the government has already made cuts in the fam programs to the point that the remaining family farmers are barely getting by.

Thank you for the time, and the opportunity to come before you today. I will be happy to try to answer any questions you may have.

(Attachment follows:)

EXECUTIVE SUMMARY

The present study extends and revises earlier research on the extent of bias against rural consumers in the distributional impact of excise taxes. In addition to analyzing the urban/rural differential burdens from excises on gasoline, tobacco products, utilities, and alcoholic beverages, a new tax (insurance) and a new category (all other excises) are added to the calculation. Moreover, our tax burden calculation is expanded to include the impact of certain excises on the prices of consumer goods and services in general.

In 1989 the American Agriculture Movement released a study showing that major consumer excise taxes imposed a disproportionately large burden on rural consumers, including farmers. Calculations were based on the excise tax rates and expenditure patterns of American families prevailing in 1984 and showed that (for excise taxes on alcoholic beverages, tobacco products, gasoline, and utilities) the effective rate was 33 percent higher for rural households than urban ones. This study updates data originally presented in the earlier study (for the year 1989) and also adds new calculations and tax categories to the mix.

Overall, our study adds evidence to support the case that rural Americans, including farmers, bear a disproportionate burden of state and federal consumer excise taxes compared to urban households. It also concludes that the burden became more onerous over the 1980s. And recent excise activity clearly indicates that the burden will grow significantly over the 1990s unless changes are made in state and federal tax policy which slow or reverse these trends. Specifically, based on updated and new data available, we conclude that:

* In all categories studied (except alcoholic beverages), rural consumers bear a higher burden of excise taxes than their urban counterparts on the basis of income;

* Rural consumers pay a 52 percent higher excise burden on gasoline than urban consumers, 44 percent higher on tobacco products, 26 percent higher on utilities, 19 percent higher on insurance, and an 8 percent higher burden on all other excise levies; and

* Overall, the rural/urban effective tax ratio increased by over 10 percent -- from 1.21 to 1.34 -- between 1984 and 1989.

Our research also analyzes aspects of the huge increases in federal and state excises since 1989. We also present empirical evidence describing the federal distribution of recently

increased gasoline and tobacco excises. Further, we analyze the probable effects of the so-called "luxury taxes." Other findings suggest the following:

* A state's per capita dollar tax burden from gasoline and tobacco tax increases will be higher when the percentage of residents living in rural areas is higher, personal income is lower, and the share of income absorbed by direct federal taxes is higher;

* That new federal excises on tobacco and gasoline penalize rural Americans, poor states, and states paying the highest income tax rates;

* That such levies are completely contrary to principles of equity or fairness that characterize and have characterized U.S. fiscal policy; and

* That, contrary to Congressional intent and to common belief, taxes on luxuries may actually reduce government revenues and harm middle-to-low income groups, including rural Americans, as they tax higher-income individuals.

Statement of

Richard L. Gady

Representing the National Grain Trade Council

Mr. Chairman and Members of the Subcommittee:

The National Grain Trade Council appreciates this opportunity to present its views on the economic outlook for the U.S. agricultural sector and how President Clinton's proposed deficit reduction and economic stimulus package would affect this outlook. I am Richard L. Gady, vice president for public affairs and chief economist, ConAgra, Inc., which is headquartered in Omaha, Nebraska. I am a member of the Farm Policy Committee of the National Grain Trade Council on whose behalf I appear before you today.

The Council is a national trade association whose regular members include grain exchanges, boards of trade, and national grain marketing organizations. The Council has a number of associate members representing a large cross-section of the grain marketing industry.

Council members cover the full spectrum of the agricultural industry. Our members include firms who handle bulk grains, the markets where the price risk associated with merchandising grain is hedged, transportation firms, and companies that process agricultural products into consumer-ready items we purchase on the grocery shelf. Council members and others in the food business represent 17 of the 20 percent of the gross national product attributed to agriculture.

In our testimony today, we will cover the economic outlook, policy steps that could affect demand for agricultural products, and the impact of the President's economic package on agriculture.

Economic Outlook

Overview

The U.S. economy is in a cyclical recovery and it appears the food sector will remain under competitive pressures for another couple of years. As we look ahead to 1993, there are a number of promising economic signals: Gross Domestic Product gains may average 2.5 percent to 3.0 percent in 1993 and momentum may carry it into the 3.0 percent to 3.5 percent range in 1994; inflation should hold steady and may average 3.0 percent in 1994; and the prime rate should remain at 6.0 percent through 1993 and longer term rates should ease until mid-1993.

The world economic recovery continues to lag behind United States. While the U.S. economy has been through recession and recovery stages, the major industrial countries are generally in the process of bottoming out of growth recessions. This slow economic recovery will continue to be a drag on demand for U.S. agricultural exports.

Agriculture Outlook

World grain use has grown little over the past six years, but still exceeded production in four of those years. Analysts expect that world grain trade will decline slightly in 1994. The largest and most variable importer is the former Soviet Union, and their grain imports are expected to remain relatively low in the coming years due to their financial problems. The outlook for grain

trade will improve if there is a GATT agreement. The impact of an agreement will be realized in the following years.

U.S. Wheat Supply and Demand

Wheat production in 1993/94 may be around 2.5 billion bushels, which would be 2 percent more than the year before. Wheat supplies for 1993 may increase to 3.1 billion bushels, up 4 percent from the previous year, but remain at a relatively low historical level.

Wheat demand, in terms of total use, may fall 5 percent in 1993/94 to 2.3 billion bushels. Exports may decline by 50 million bushels from the previous year, reflecting the uncertainty surrounding sales to the former Soviet Union and China.

The trend that has emerged in wheat demand over the last several years is one of increasing domestic use and falling exports. When projections for 1993/94 are compared to 1988/89, domestic use has increased by 12 percent and exports have declined by 14 percent.

If the wheat price averages $3.15 during 1993/94, the value of the 2.5 billion crop would be about $7.88 billion. This compares to a 1992/93 average price of $3.20 and a crop of 2.5 billion with a value of about $7.87 billion.

U.S. Corn Supply and Demand

Corn production in 1993 may total 8.35 billion bushels, down 12 percent from last year's record crop, but otherwise the largest crop since 1985. The set-aside requirement was raised from 5 percent to 10 percent, and a trend yield of 121 bushels per acre is down 10 from the 1992 record. With the larger carryin, total corn supplies in 1993/94 are expected to be unchanged from the year before at 10.5 billion.

Total corn usage in 1993/94 is expected to rise 2 percent to 8.6 billion bushels. Exports are forecast at 1.66 billion bushels, up a little from last year's 1.62 billion, but still well below the 5 year average of 1.9 billion. Domestic usage, including sharp gains in ethanol demand, is forecast to rise 2 percent. Both feed and industrial corn demand have been strong, rising 4 percent annually over the past 5 years.

The emerging trend in corn is similar to wheat, increasing domestic use and falling exports. In comparing 1993/94 to 1988/87, exports have fallen by 5 percent and domestic use has increased by 17 percent.

If the corn price averages $2.25 in 1993/94 for the 8.35 billion bushel crop, the value of the crop would stand at about $18.8 billion. This compares to an average price of $2.15 in 1992/93 for a 9.5 billion bushel crop with a value of about $20.4 billion.

U.S. Soybean Supply and Demand

Soybean production in 1993 is forecast at 2.0 billion bushels, down 9 percent from a year ago. Although acres planted are expected to increase slightly, a return to trend level for yields means production will be lower. The total soybean supply for 1993/94 is expected to be down 5 percent from the year earlier.

U.S. soybean usage is forecast to decline 4 percent to 2.05 billion bushels, due to reduced soybean exports. U.S. soybean exports have risen 34 percent over the past two years, but are expected to decline to 700 million bushels during 1993/94. Soybean crush in 1993/94 is forecast to decline to 1255 million bushels.

Soybean stocks are projected to decline to 296 million bushels at the end of the 1993/94 crop year. This is less than 15 percent of usage and does not leave much room for error in the event of weather problems or additional demand.

If the soybean price averages $5.90 in 1993/94 for a 2 billion bushel crop, the value of the production would be about $11.9 billion. This compares to an average price of $5.74 in 1992/93 and crop of 2.2 billion bushel with a total value of $12.6 billion.

In summary, for corn, wheat, and soybeans, we expect the 1993 crops to be less that the record-shattering production of 1992. With this lower production, the value of the production for corn and soybeans will also be down. On the demand side, the trend is toward lower export levels and increased domestic use. Exports are down because of the lingering world recession, the financial and stability difficulties faced by the former Soviet Union, and the uncertain import needs of China.

Policy Steps that Could Affect Demand

The U.S. grain industry, including farmers and merchandisers, benefits most from a strong and growing demand base. Agriculture's weakness over the last several years has been faltering or inconsistent export demand. It is not within our control to alter economic trends that have the world economy lagging behind the United States. But, there are several areas within our control where positive steps could enhance the demand for U.S. products. These include: assisting the former Soviet Union; maintaining a positive trade relationship with China; completing the Uruguay Round of the General Agreement on Tariffs and Trade (GATT); implementing the North American Free Trade Agreement; and recognizing the importance of value-added products.

Former Soviet Union

There are policy reasons that transcend agriculture for helping the republics of the former Soviet Union rebuild their economies that decades of Communism have left in tatters. The infrastructure of these nations is rudimentary, their financial system is lacking, and their political stability is uncertain. Yet these nations, and Russia in particular, are rich in natural and human resources that if appropriately marshalled can help them emerge from their current difficulties.

The former Soviet Union has been an important market for the United States, accounting for 15 percent to 25 percent of U.S. exports in recent years. At one time or another, the FSU was the largest buyer of U.S. wheat, second-largest buyer of U.S. feed grains, and fourth-largest U.S. agricultural market. For a multitude of reasons, the FSU is now in default on their repayment obligations to the United States. However, the FSU republics remain in need of U.S. assistance. The United States should step forward to offer assistance. It is a critical time for the United States to assist the forces of political and economic reform in the FSU.

We support the proposal advanced by our colleagues from the North American Export Grain Association (NAEGA). Their proposal makes the following recommendations:

1. a pre-emptive assumption of the FSU's GSM-102 debt;

2. rolling that debt into a special revolving fund created within the Commodity Credit Corporation;

3. placing a moratorium on FSU debt repayments;

4. moving any unused GSM-102 credit balance for the FSU or other funds to a GSM-103 program for the FSU;

5. providing direct loans or credit guarantees through the new revolving fund; and

6. providing food aid through existing programs, such as P.L. 480, Food for Progress, or Section 416.

We feel the NAEGA proposal is a comprehensive plan that could form the basis of renewed trade with the FSU and would signal American help when and where it is needed.

China

China has been a very important agricultural customer of the United States and in many years was the United States' number one wheat customer. China's Most Favored Nation trade status expires July 3, 1993 and the Administration will need to notify Congress by June 3 of whether it intends to extend that trade status. We understand the Administration will likely propose a

continuation of MFN status for China but conditioned on some progress in human rights and other areas.

We would caution that this is a delicate situation. China in the past has simply stopped buying U.S. wheat when it was displeased with U.S. actions. While any U.S.-China trade rift would likely be resolved over time because of the mutual needs of the two countries, in the meantime U.S. agricultural sales could suffer severely. In a world market that is very competitive, U.S. agriculture has in the past experienced first-hand the ill effects of trade being used as a foreign policy weapon.

It is important for agriculture that the United States maintain strong commercial trade ties with China and its 1.1 billion consumers.

GATT

We believe the future lies in negotiating trade agreements that reduce trade barriers and provide for more open commerce among nations. The basic result of such agreements is to reallocate national resources where those who have a comparative advantage in a given product will be the most competitive supplier. Uneconomic production of other items would be discouraged and resources will be better utilized. Dollars spent on uneconomic activities can be channelled toward growth possibilities.

The Uruguay Round of the General Agreement on Trade and Tariffs has been seven years in the making. The United States and the European Community struck a bilateral agreement on the agricultural provisions of the GATT on November 20, 1992. While those provisions represent far less than the United States originally set out to achieve, it is probably not realistic to expect either party to go any further. Thus, we believe the current agreement on agricultural issues represents the best opportunity for the United States to achieve an agreement and move forward. This new agreement would achieve a historic first -- it would bring some discipline to the European Community's unbridled use of subsidies.

From relatively minor adjustments, major benefits may result. Some calculate that the agreement would, after a six year implementation period, result in a $4 billion increase in U.S. agricultural exports compared to expected levels without an agreement. We recognize there could be dislocations for some U.S. producers, handlers, and industries who do not enjoy comparative advantages, but an agreement would be a major positive step for the United States and world economies and for U.S. agriculture. It will be critical for the United States to support activities that will address the dislocations in a sensitive manner.

NAFTA

The National Grain Trade Council is also in strong support of the proposed North American Free Trade Agreement. We believe the NAFTA offers U.S. agriculture an opportunity to trade and invest and to benefit from increased economic activity.

Most studies also show that NAFTA will result in a net increase in U.S. jobs. In the United States, for those involved in grains, oilseeds, and meats it is pretty clear that NAFTA is an opportunity to gain access to a larger market.

A recent report by the U.S. International Trade Commission says NAFTA will likely result in long-term increases of 16 percent or more in U.S. exports to Mexico of grain and oilseeds, deciduous fruits, poultry, swine and pork, beef offal, fresh citrus and certain cut flowers. USDA has estimated that U.S. corn and sorghum exports would increase by $400-500 million because of NAFTA. Wheat and rice exports may increase moderately. U.S. soybean exports may increase by $400-500 million.

It is important to realize for agriculture that NAFTA is essentially two bilateral agreements, one between the United States and Mexico, the other between Mexico and Canada. NAFTA alone will not assure U.S. exports to Mexico, the United States will have to be competitive.

Value-Added Products

We should not overlook the importance of value-added products as we look at ways to build demand for grains. Value-added products, whether consumed in the United States or abroad, use bulk grains, result in U.S. jobs, and contribute significantly to economic activity. More than one-half of U.S. export earnings now come from value-added products. It is interesting to realize that while the value of bulk grain exports has grown by only seven percent since 1985, the value of livestock and poultry exports grew by 150 percent.

Meat exports have been a particular bright spot. In 1992, meat exports exceeded imports, possibly for the first time on record. In the last five years the U.S. has gone from a net importer of almost 2 billion pounds of meat to a net exporter of about 0.3 billion pounds.

A pending study by the consulting firm of Abel, Daft & Earley points out that the benefits of the export growth for meat, poultry, and dairy products for U.S. agriculture and the whole economy have been manifold. The study states:

> The domestic market for feedstuffs has expanded, benefiting grain and oilseed producers. Also, growth in meat, poultry, and dairy product exports has increased jobs. Direct employment in the production and processing of meat, poultry, and dairy products for export is around 73,000 full-time equivalent jobs. Total employment, which includes both direct employment and jobs supporting production processing, and marketing activities related to these exports is about

200,000 full-time jobs. Furthermore, total employment associated with these exports could easily grow by 20,000-30,000 jobs a year if the growth in exports continues on its present path.

The substantial benefits of continued growth in exports of meat, poultry, and dairy products will flow not only to the industries directly involved, but also to grain and oilseed producers, rural areas where most production and processing of livestock and poultry products occurs, and to the whole economy in terms of employment, economic growth, and the favorable impact exports have on the trade balance.

We have outlined five areas where U.S. policies could enhance demand for U.S. agricultural products: FSU; China; GATT; NAFTA; and value-added products. There are two prerequisites to meeting demand -- adequate supplies and competitively priced products. While we consider positive steps to improve demand, it is equally important that we guard against steps that could endanger either supplies or price competitiveness.

ARPs

Acreage reduction programs undermine the United States' ability to compete in world markets and harm farm income. As the world economy becomes more integrated, ARPs amount to little more than unilateral withdrawal from the world market. When the United States chooses to idle productive land, competitor nations simply step in to take up the slack and increase their market share.

Not only do ARPs harm the United States' competitive position in world markets, but they frustrate domestic economic growth. Idling large amounts of productive land shrinks economic activity in rural America and discourages new investment. The signs of this decline are all too common -- closed implement dealers, feed stores, grain elevators, grocery stores, fertilizer dealers, churches, hospitals, and schools.

Contrary to the widely-held view, ARPs do not benefit farmers. Farm income from the market-place falls under land-idling schemes because, unless prices rise appreciably and remain high, incomes will fall from smaller output. But, because ARPs lead to the expectation of higher prices, the rest of the world increases its output, capturing whatever gains occur and pressing prices back down.

Loan Rates

To ensure that the United States remains price competitive in world markets it is critical that loan rates remain below market clearing levels. In the early 1980s, the United States allowed loan rates to creep above market-clearing levels. Producers forfeited the grain they had under loan to the government and the level of free stocks available to the market dropped drastically.

The loan rate in essence created a price umbrella the United States held over the world market, giving competitor nations a free hand to sell into the world market while the United States withheld its stocks.

Congress wisely reversed this policy in the 1985 farm bill, setting the loan rate at 75 percent of a rolling average of annual market prices. The loan level formula was changed in the 1990 farm bill to 85 percent of a rolling average of market prices.

There has long been a temptation to increase loan rates in an effort to trim deficiency payments and reduce government outlays. Such a step would be counterproductive and would risk U.S. competitiveness over the long-term. Furthermore, we understand a loan rate increase would be considered an increased cost by budget officials for two reasons: (1) higher loan rates result in higher initial outlays; and (2) more bushels are eligible for loan than are eligible for deficiency payments.

The marketing loan concept introduces a new twist to conventional thinking on loan rate levels. The lower repayment level provided by a marketing loan may lull some into believing that loan rates can be increased without jeopardizing the nation's competitiveness. However, the increased budget costs that come with higher loan rates must be offset in some fashion. The fear is that there would be an attempt to offset those higher costs with an increased ARP. A higher ARP would reduce the number of acres eligible for target prices.

From a competitive point of view, this result would be the worst of both worlds -- falling supplies and an increasing price umbrella. We believe such a step would only exacerbate the problems facing rural America.

Implications of the President's Package for Agriculture

President Clinton in his State of the Union address outlined a broad program designed to both stimulate the economy and reduce federal spending. The President's plan includes a mix of spending increases and cuts, as well as tax increases. The plan would generate $328 billion in new revenues and cut $247 billion from spending over the next four years.

The National Grain Trade Council strongly supports the goal of reduced federal spending and steps to cut the budget deficit. We realize this calls for sacrifice from many sectors, including agriculture and the industries that serve the sector. If the cuts are fair and equitable, we want to be supportive of the President in his efforts. We are also mindful of the President's admonition that before we criticize we should be prepared with an alternative.

The President's package would cut spending for farm programs. This would be principally accomplished through: limiting farm subsidy payments to farmers with an off-farm income of less than $100,000; increasing from 15 to 25 percent the amount of flex acres not eligible for

deficiency payments beginning in 1996; and ending the 0/92 and 50/92 programs beginning in 1996.

Spending cuts are bitter medicine and one looks for the least painful way to achieve the necessary target, preferably finding ways to allow growth and ingenuity to offset the impact of the cuts. From a policy perspective, the President's proposal is generally consistent with a market-oriented approach. We are concerned with the assumption that the 0/92 and 50/92 programs would be replaced by higher ARPs. We do not feel farmers need further guidance on when it makes sense to plant or not.

Apart from these broad changes in farm policies, the President has proposed user fees for several areas that are important to the grain marketing industry: inland waterways, futures trading, and grain inspection. The Council has often been skeptical of user fees. In the case of the inland waterways, futures trading, and grain inspection the grain marketing industry is already paying a substantial amount toward the cost of those agencies and services.

The basic problem we have with all user fees is that they tend to mask the fundamental problem. With user fees, all that is occurring is a change in funding source, not a re-examination of whether the service is needed in the first place or whether it can be accomplished more efficiently. User fees appear to us to be an easy answer to reducing government spending, but an answer that avoids the hard question of how spending should be reduced. What is needed, instead of increased user fees, is a hard look at government programs and cuts in lower priority areas. If industry is called upon to fund many government functions, then it seems only fair that industry should have a direct say in how those funds are used.

Inland Waterway User Fees

The President's proposal would increase the per gallon tax on diesel fuel from 19 cents to $1.19 over four years to fully recover shallow-draft navigation operation and maintenance costs. We believe the magnitude, impact, and inequity contained in this proposal argue against its adoption.

- The magnitude: the proposal would increase the current waterway user fee by over 500 percent. With the cost of diesel fuel at about 60 cents per gallon, the new user fee would amount to twice the cost of the fuel.

- The impact: the magnitude of the fee increase would ripple through the economy. Agriculture would be particularly hard hit. Over one-half of the nation's grain exports move by barge. The fee increase would mean an added cost of about 10 cents per bushel for corn, soybeans, wheat, and other grains moved by barge for export. While barge operators would bear the initial brunt of the increase, economics will push that cost back upstream to grain merchandisers, to farmers, and eventually to consumers. Much of the $840 million that would be collected would be reflected in lower farm prices.

- Fairness: the Administration's proposal is based on the premise that commercial navigation is the sole beneficiary of the nation's inland waterways. That is not the case. The inland waterways system was developed for multiple uses, including flood control, irrigation, recreation, hydropower, and municipal water supply. To single out one user, the barge industry, to pay the entire cost of a system with multiple beneficiaries is unfair.

The barge industry already pays a fuel tax that reimburses the Corps of Engineers for one-half of the cost of inland navigation construction and rehabilitation projects.

We are pleased to note the Senate has approved a resolution that would drop this fee increase and that the House Budget Committee has shown a willingness to take a harder look at this fee proposal.

CFTC User Fees

The President's economic package would assess a transaction fee of about 14 cents per round-turn on futures and options to fund the operations of the Commodity Futures Trading Commission. The fee would raise $55 million in fiscal 1994 and $235 million over four years.

We believe a transaction tax would be counterproductive over the long-term. The fee could damage the competitiveness of U.S. futures exchanges and threaten market liquidity. Furthermore, the industry already funds the compliance and surveillance activities of self-regulatory organizations and CFTC oversight does benefit the general public.

- Competitiveness: for many market users who can choose whether to trade on U.S. markets or foreign markets, the proposed fee would encourage more trading to take place off-shore. Cost and liquidity dictate market choice, not the location of a particular exchange, city, or country.

- Liquidity: a transaction tax could cause U.S. markets a loss in liquidity, not only from business that moves overseas, but also from lower speculative participation on exchange trading floors. A transaction tax would hit local floor traders the hardest. These traders typically execute a number of transactions during the day before evening-up their positions by the close of trading. Their hopes of profiting from small intra-day price changes would be wiped out by a transaction tax. This could dramatically harm market liquidity.

- Industry funding: the industry already funds the entire $26 million cost of the National Futures Association. In addition, the compliance and surveillance programs of the two largest U.S. exchanges (Chicago Board of Trade and Chicago Mercantile Exchange) together cost market users another $26 million.

- Public benefit: the benefits of the broad oversight provided by the CFTC transcend market users and accrue to the general public. CFTC oversight ensures the economic utility of the markets and market integrity. This oversight also protects market participants against manipulation, abusive trade practices, and fraud. These programs are a necessary part of the CFTC's role as the market's policeman, but they are programs that benefit the public, not specific groups of market users.

When Congress last considered the user fee issue they decided to call on the General Accounting Office to assess the feasibility of such a step. That report is expected by May 1993. We believe it would be prudent to first weigh the findings of the GAO before moving forward on the user fee proposal.

FGIS User Fees

The President's economic package would increase the user fees for the Federal Grain Inspection Service by approximately $7 million to cover the agency's cost for standardization activities.

Users have long paid for the actual inspection and weighing services that FGIS provides. In 1981, those fees were increased to cover supervision and administration of inspection and weighing programs. Since that time, the only FGIS programs not funded by user fees are those for standardization and compliance. The industry now funds some 70 percent of the FGIS budget.

The standardization program, now funded with appropriated monies, includes grain standards development, research and development, and quality control. These are programs that benefit all in the grain marketing system, yet the costs would be borne by those who use the official inspection system.

The official inspection system is already staggering under the weight of current user fees. As fees have increased in recent years, domestic users who are not required to use the service have increasingly opted not to use the official system, relying instead on unofficial or "house" grades. This has created a downward spiral of falling inspection volume and increasing fees. As that spiral tightens, FGIS costs are increasingly borne by those who are required to use them -- export facilities.

This situation has become sufficiently acute to warrant an in-depth review by the General Accounting Office whose findings are expected in the next 60 days. Thus, even without the President's proposal to increase user fees, the current fees have precipitated questions about the agency's structure and viability. Increasing the fees to recover the cost of the standardization program, which some estimate would require a fee increase of about 17 percent, would only further jeopardize an already fragile situation.

Clearly some fundamental decisions must be made about the agency's structure and direction. We hope the pending GAO report will provide a basis for that discussion. The law governing most FGIS programs will come before this Subcommittee for reauthorization this year. The reauthorization process could provide a constructive forum for evaluating the agency and charting its future course.

The National Grain Trade Council supports a strong national inspection system. But, it must be a cost-effective system. Increasing the user fees at this time would only exacerbate an already tenuous situation. It is time for a broader view of FGIS' challenges and priorities, not for increasing fees.

Conclusion

In summary, the economic outlook for agriculture is positive. We expect the 1993/94 crop to be down from last year's record production. Even though prices may have weakened some because of the large crop last year, in most cases that was more than offset by the record number of bushels farmers had to market.

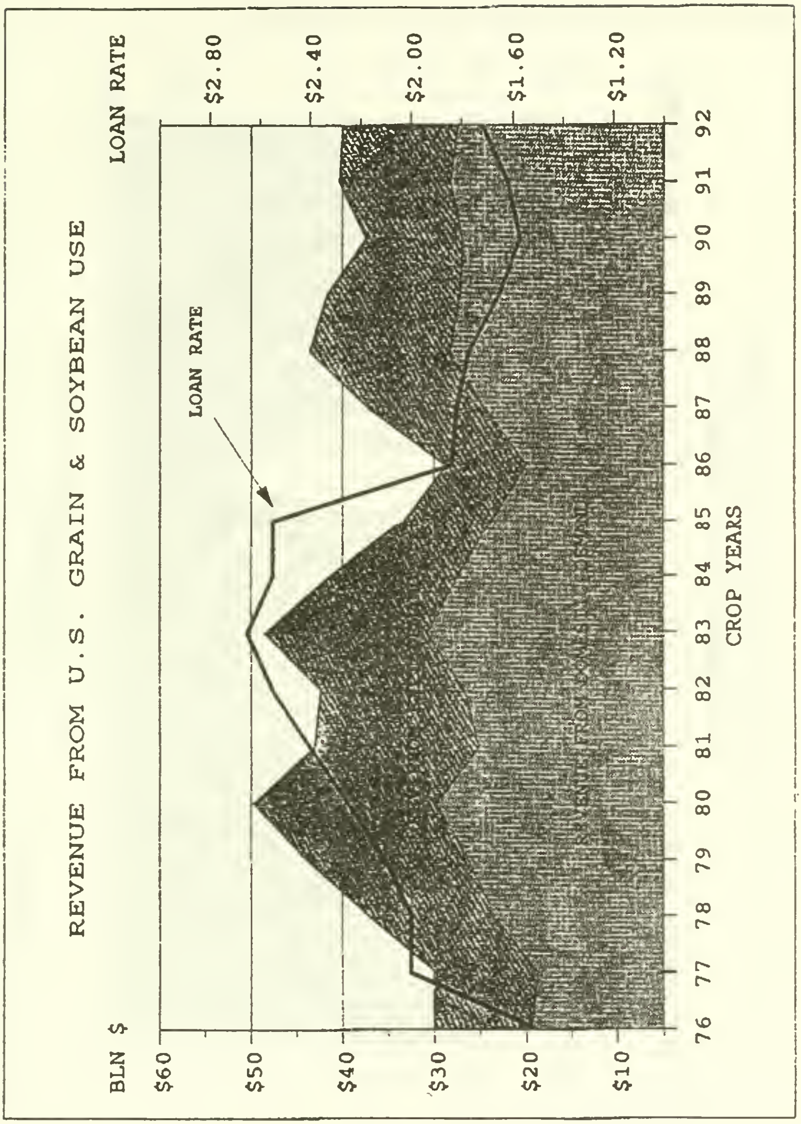
The recent trend for corn, wheat, and soybeans has been one of growing domestic demand, but largely stagnant export markets. But, U.S. agriculture still confronts a global challenge of feeding more people better. As the world emerges from recession and the chaotic effects of the collapse of communism in Eastern Europe and the former Soviet Union, world grain use should start vigorously growing again. It could increase 20 percent or 350 million tons by the year 2000. In addition, many households, especially in Africa, Asia, and Latin America, still do not eat enough food; to close this gap would require by one estimate an 800 million ton increase in foodstuffs by the year 2000.

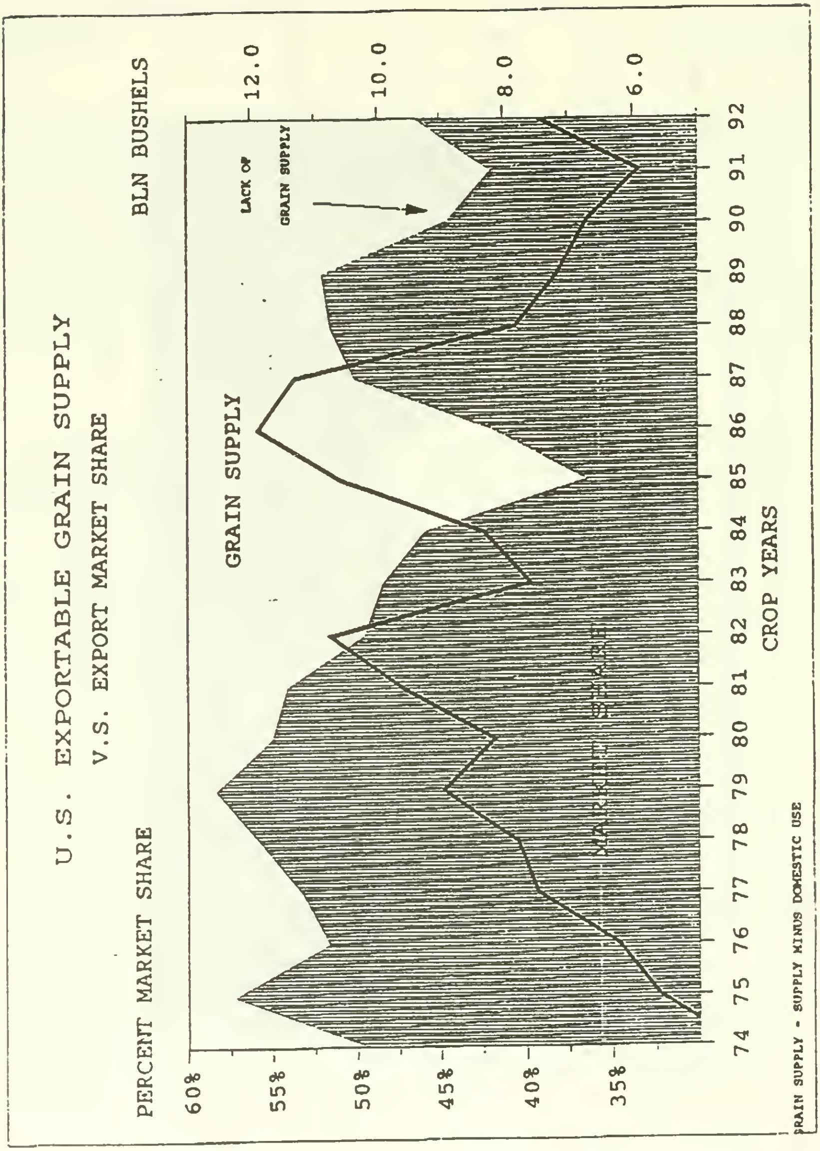
The Council believes the policy areas we have outlined will help the United States be in position to meet this challenge. A consistent focus on export policy will pay dividends over the long-term. That includes producing for market demand, marketing for customer needs (including credit), storing for unexpected weather and demand surges, and generally keeping an eye on the bigger picture.

As we look at the President's economic package, we want to be optimists because we strongly believe in the need for deficit reduction and reduced federal spending. We realize that will involve some sacrifice on our part.

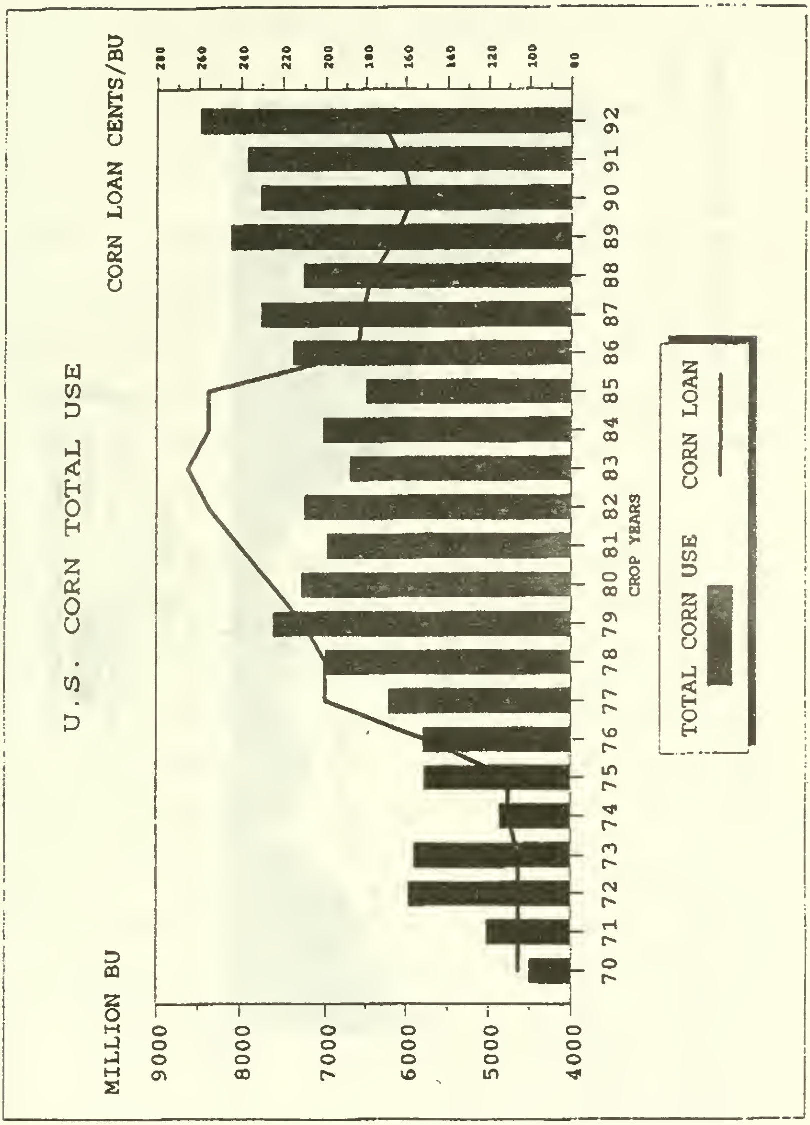
We are concerned by several proposals to shift the funding of some government agencies from general tax revenues. We believe this overlooks the fundamental need to evaluate areas where spending can be cut or where we may spur growth that will show up in America's tax base. In the cases we have cited -- waterway user fees, CFTC fees, and FGIS fees -- the industry is already paying a substantial amount to fund these activities.

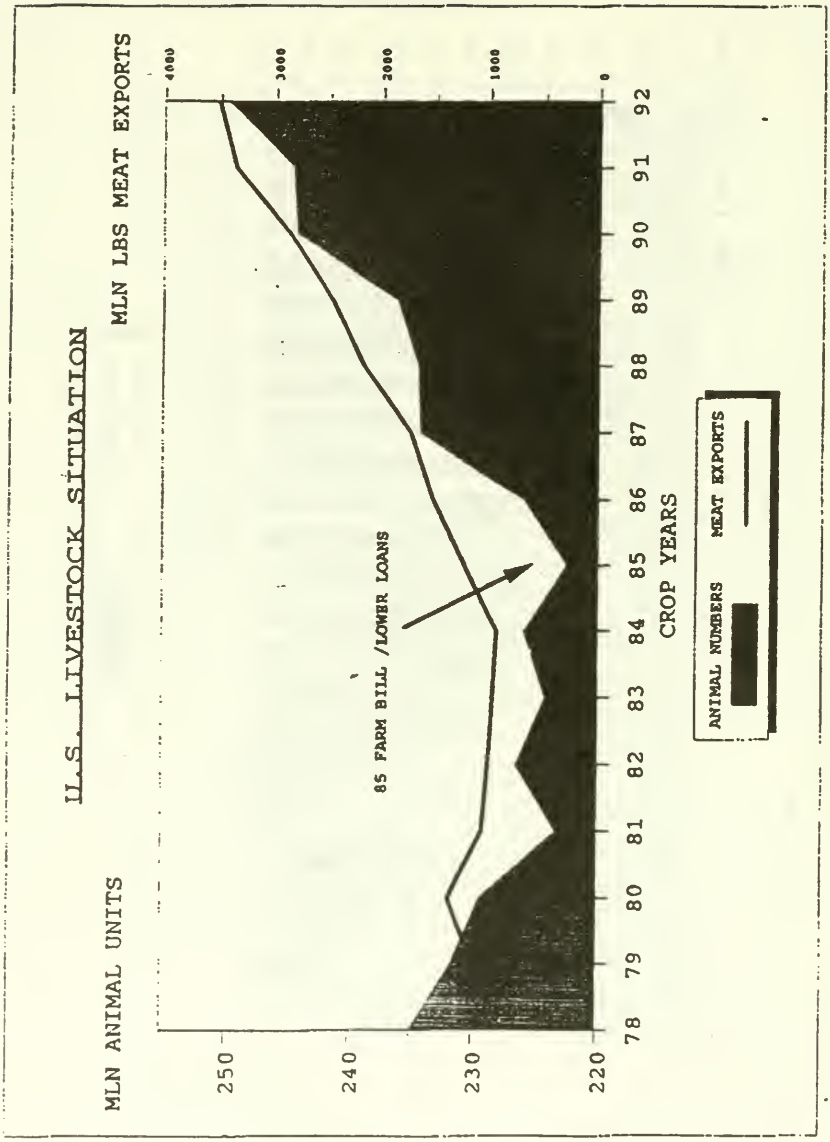
(Attachments follow:)


REVENUE FROM U.S. GRAIN & SOYBEAN USE
BLN $
LOAN RATE
$60
$50
$40
$30
$20
$10
$2.80
$2.40
$2.00
$1.60
$1.20
LOAN RATE
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
CROP YEARS



U.S. EXPORTABLE GRAIN SUPPLY
V.S. EXPORT MARKET SHARE
PERCENT MARKET SHARE
BLN BUSHELS
60%
55%
50%
45%
40%
35%
12.0
10.0
8.0
6.0
GRAIN SUPPLY
MARKET SHARE
LACK OF
GRAIN SUPPLY
74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
CROP YEARS
GRAIN SUPPLY - SUPPLY MINUS DOMESTIC USE


U.S. CORN TOTAL USE
MILLION BU
CORN LOAN CENTS/BU
9000
8000
7000
6000
5000
4000
280
260
240
220
200
180
160
140
120
100
80
70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92
CROP YEARS
TOTAL CORN USE
CORN LOAN


U.S. LIVESTOCK SITUATION
MLN ANIMAL UNITS
MLN LBS MEAT EXPORTS
220
230
240
250
0
1000
2000
3000
4000
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
CROP YEARS
85 FARM BILL /LOWER LOANS
ANIMAL NUMBERS
MEAT EXPORTS

U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm
Commodities

Testimony of
John Garland, Vice President
March 23, 1993

On behalf of the National Farmers Organization, I want to thank the Chairman and Members of the Sub-Committee, for the opportunity to express our views on the economic outlook for U.S. Agriculture and President Clinton's proposed economic recovery plan as it may effect U.S. agriculture producers. I am John Garland, national Vice President of NFO and a row crop and hog farmer from the Dale, Indiana area.

We believe the new administration is on the right track, in its overall approach to turn the economy of this country around. Deficit reduction through a combination of reduced spending, some tax increases and economic stimulus incentives is probably the only realistic way to reduce the national debt and restore the economy. We are encouraged and supportive of the proposed stimulus package designated for the improvement of rural development. Over the long run, the elimination of the federal deficit and investment in the rural infrastructure will benefit production agriculture as much as any other sector of our economy. As the Chairman is aware, the cost of borrowing money is critical to the intensive capital requirements for production agriculture.

Mr. Chairman, based on the 1990 budget agreement cuts, which have already been imposed on agriculture, coupled with the proposed commodity program cuts over the next four years, it is clear that agriculture is taking a disproportionate share of the budget cuts.

The truth of the matter is, that most farmers simply cannot afford the budget cuts as proposed combined with the proposed BTU energy tax, which will all come directly out of net farm income. When I say "can't afford", I am not referring to some temporary financial discomfort or short term set-back, I am referring to the ultimate loss of many of our efficient mid-range farmers, unless we find a different way to meet the proposed budget requirements.

Often times when we refer to agriculture, we make the mistake of not describing the distinction between production agriculture and the marketing and service industries involved in agriculture. As I am sure the Chairman is aware, there is a major difference in the financial status and general outlook for production agriculture - vs - the agri-marketing and service industries. I am including a graph (exhibit #1) taken from a study done by Dr. Stewart Smith for the Joint Economic Committee of the Congress, titled "Agriculture Industria' ion and Family Farms - The Role of Federal Policy", which clearly illustrates the disparity between farm producers and agri-business. The graph illustrates the major contribution of agriculture to the national economy but also illustrates how the value of agriculture marketing and service has grown tremendously

(since 1910 627% for marketing and 460% for services ie. machinery, fert. etc.) while the value attributable to farm production agriculture has actually declined.

A specific example of the difference in the impact of increased operating costs between agriculture business and farm producers is clearly illustrated in testimony presented to this Sub-Committee just last week by the National Grain and Feed Association. The Association said "as much as 85 to 95 percent of the barge fuel tax would be passed back to farm producers in terms of lower farm prices". We do not use this example to be critical of the grain and feed dealers, but simply to illustrate the ability of agri-business to pass on their out of pocket costs. As individuals, farm producers simply do not have the ability to pass on additional costs or effect the market price paid for their production. This inability to pass on additional costs is reflected in another graph showing USDA and FAPRI projections (exhibit #2) which project a long range decline in net farm income even before the additional budget cuts.

The real tragedy of this circumstance is that there is no excuse for this financial dilemma. As we have indicated in previous testimony, we do not have price depressing surpluses for any of the basic commodities. By almost any historical reference you want to use showing existing commodity supply and utilization, we should be receiving favorable grain prices that would allow farm producers

to handle projected increased production costs and forego some of the government income support payments.

It is not the budget cuts or the reduction in government payments that is the basic cause of lower income to agriculture producers, it is the current explicit national agriculture policy which artificially lowers the value of our production and calls it a market oriented policy. The problem is that these policies orient prices in only one direction and that is down!

Export Enhancement Program subsidies, marketing loans and non-recourse price support loan levels at 65% to 70% of out of pocket production costs are all explicitly designed to lower market prices in an effort to increase export volume. They are basically international trade war tools. After seven crop years which were harvested and marketed under this policy, there is not one shred of hard evidence that these trade war tools have worked. I believe there is some evidence that this confrontational approach may actually have lost international sales. In any case these provisions have lowered market prices, which of course they were designed to do.

The following are season average prices received by farmers in 1980 compared to USDA's projected average market price for deficiency payment purposes for the 1993 crop:

	1980 Avg. Price Rec'd by Farmers	1993 Projected Price by Farmers
Wheat	$3.91	$2.95
Corn	$2.74	$2.03
Soybeans	$7.57	$5.50 to $6.00

Rather than asking for an exception to the proposed budget cuts or the energy tax assessments, farmers overwhelmingly will prefer to offset the cuts with an increase in the market price. A modest increase in market prices can be achieved by a change in the mandatory requirement for marketing loans and a modest increase in the loan rates for wheat and feed grains.

NFO RECOMMENDATION

For the short term, NFO recommends that wheat and feed grains be restored to the basic loan rate of 85% of the preceding 5 year market average price. This modest increase in loan rates could create a .10 to .20 cent increase in the wheat market and an .08 to .15 cent increase in feed grains. Even with some increase in loan outlays, you will show a net savings in the budget. For each .01 cent savings in deficiency payments, there is $55 mil savings for corn, and $18 mil for wheat; collectively, for each.01 cent reduction in the deficiency payment for barley, oats and sorghum you would save an additional $8.2 mil.

From the standpoint of international competitiveness, we fail to see how anyone acting in good faith could raise concerns about loss of exports with this modest proposal for increased loan rates.

Mr. Chairman, again I want to commend you for holding this hearing and thank you for the opportunity to appear before you today. We look forward to working with you and the sub-committee in the coming months.

(Attachments follow:)

EXHIBIT I

Figure 4

Marketing, Input, and Farm Totals

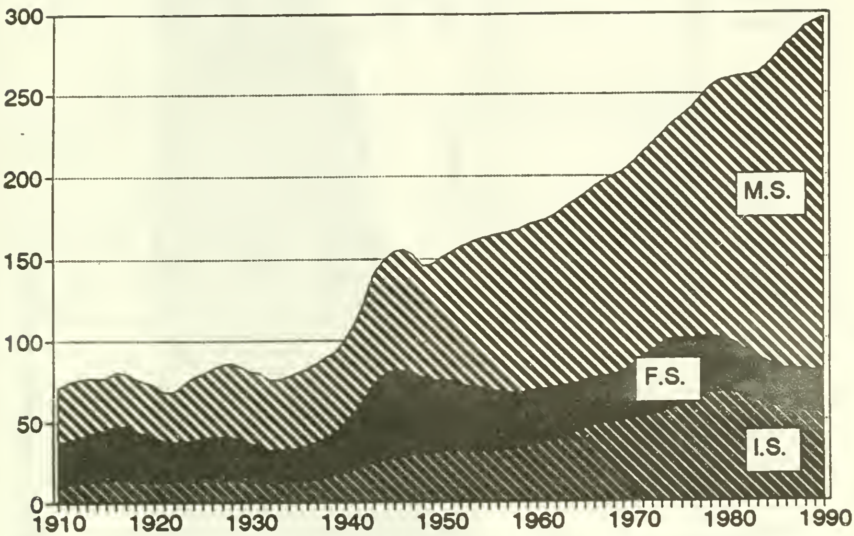


EXHIBIT II

Net Farm Income Trend

Before Proposed Budget Cuts in Farm Program
Real $'s (1987=100)

Source: USDA ERS, FAPRI projections.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE HOUSE AGRICULTURE SUBCOMMITTEE ON GENERAL FARM COMMODITIES REGARDING PRESIDENT CLINTON'S PROPOSED ECONOMIC PACKAGE ON AGRICULTURE

Presented by John G. Laurie, President
Michigan Farm Bureau

March 23, 1993

Thank you for the opportunity to present the views of the American Farm Bureau Federation (AFBF). I am John Laurie, President of the Michigan Farm Bureau.

We appreciate President Clinton's efforts to focus the nation's attention on our serious budget and economic problems. Clearly, difficult choices will be required to bring the deficit under control and provide responsible prioritization of spending and tax policy for the nation. AFBF strongly supports policies to strengthen the economic foundation of our nation, and we stand ready to work with the Congress and the Clinton administration to get that job done.

While our members are strongly committed to the stated objectives of deficit reduction and economic growth, we have serious concerns about the adverse economic impact provisions of the proposal presented to the Congress by President Clinton will have on U.S. farm families. A primary concern is that the energy tax will severely hurt farmers and ranchers. In addition, the budget cuts proposed for agricultural programs and services will significantly reduce the already diminished level of assistance provided to our most basic industry—agriculture.

The cumulative effect of the energy tax and the agricultural budget cuts will decrease our ability to compete in world markets. This directly conflicts with the direction farm policy has been following, which recognizes that a prosperous agricultural sector must be responsive to competition around the world. American agriculture cannot afford to withdraw from the international market where we sell up to one-fourth of our output.

The change in direction in the 1985 farm bill was necessitated by a failed policy of establishing price support rates that ignored world market prices. Since the adoption of the 1985 and 1990 farm bills, we have protected farmers, but at the same time made them respond to the economic forces of supply and demand. The result has been regained export markets which are critical to profitability in agriculture. We cannot afford to lose that competitiveness by increasing the cost of our agricultural products through an energy tax. This tax would impose added costs on individual producers who cannot pass those costs on. Increases in

68-362 O - 93 - 10

transportation and processing costs will simply make our products less competitive in world markets.

The second main objection we have is the imposition of another round of budget cuts on agricultural programs. This is proposed at a time when we are attempting to negotiate a multilateral trade agreement that will create opportunities for American products overseas and combat the trade distortions created by export subsidies, import barriers and trade-distorting internal supports. We would simply be following a practice of unilateral disarmament to adopt these budget cuts at this time. Other countries will have no motivation to curtail any of their current practices if we dismantle agriculture's safety net regardless of what they do.

You have each received a copy of the letter that AFBF President Dean Kleckner sent to President Clinton expressing our opposition to the energy tax. Rather than reiterating each of those issues, let me summarize our concerns by making the following points:

(1) Agricultural production is energy intensive. We project that farmers will incur $1 billion per year in additional production costs as a result of the energy tax ($500 million in direct energy used for farm machinery and $500 million in increased input costs). These are costs that farmers cannot pass on in higher prices. As producers of commodities we are largely price takers not price setters;

(2) Farm prices will decline. Farmers receive the market price established in commodity markets minus the transportation and handling costs. The energy tax will increase those costs and result in lower farm prices;

(3) The $1 increase in the inland waterway fuel tax will increase transportation costs for midwestern grain and soybeans by at least 8 cents per bushel, thereby discouraging use of one of the most energy-efficient modes of transportation available; and

(4) Applying the BTU tax to renewable alcohol fuels such as ethanol is contradictory to the objective of promoting renewable fuels that reduce harmful emissions.

We are also extremely concerned that agricultural programs have been targeted for excessive spending cuts. These cuts must be considered in the context of what has occurred in the budget for commodity programs since 1986. Spending on farm programs has been cut by more than 50 percent since 1986. In every budget-cutting exercise since that time, agricultural spending has been reduced by more than the rate of reduction applied to other programs. For example, in the 1990 Budget Reconciliation Act, agricultural spending was cut by over 20 percent, a greater percentage than any other program. Agriculture has been willing to do

its share to reduce the deficit, and we will continue to do our part, but the cuts that have been imposed are clearly disproportionate.

In President Clinton's proposal, agricultural programs are once again targeted for cuts that will exceed the rate of spending reduction for the entire budget. The large cuts scheduled to take effect in fiscal 1996, 1997 and 1998 amount to about 25 percent per year in commodity program cuts while overall federal spending cuts are closer to 6 percent. Agriculture is being saddled with about four times the cut in the overall rate of spending reduction. We cannot find the equity or fairness in this distribution of the burden for reduced spending.

The specific budget cuts proposed by the President are also troubling to us. AFBF believes that the cuts would prove to be detrimental to our ability to compete in world markets. Other proposed cuts would cripple program provisions that have been both constructive and cost-effective, and some of the proposed cuts simply will not achieve the proposed savings that have been attributed to them. We must also recognize that by adopting these budget cuts we will have written the 1995 farm bill. You, as members of the Agriculture Committee will have very little latitude to enact commodity policy in that legislation if these reductions are locked in this year.

At this time, I would like to list some of our objections to these specific budget cuts so that you understand the nature of our opposition to the Clinton budget plan.

(1) $100,000 Off-Farm Income Test: Farm Bureau supports the current program payment procedures and opposes any action that would further target program benefits. We believe that unwise targeting of program benefits will be detrimental to our current production and marketing infrastructure. We believe that agricultural programs will only diminish in effectiveness if arbitrary limits on eligibility are adopted. People will find ways to circumvent the restrictions and those who are made ineligible will produce in competition with the program, thus increasing the burden of supply adjustment on the farmers who remain under the program restriction. In addition, we believe that the following points should be considered:

(a) Precedent: If such a means test were imposed, we are concerned that the limits placed on program participation would be expanded over time, ultimately rendering these programs totally ineffective at stabilizing agricultural income;

(b) Enforcement: If this means test were in place, all farmers participating in the program would be required to prove that they do not exceed the off-farm income cap. This would require an overwhelming amount of documentation such

as tax returns and bank statements which would severely strain the already overloaded ASCS system;

(c) Economic Disruption: Farmers, operators and landlords who share rent property to farmers are eligible for farm program benefits. Excluding participants will lead to restructuring of business relationships such as changing rental agreements from share lease to cash rent contracts. This will place a greater burden and much greater risk on the farm operator. Banks and other financial institutions are reluctant to finance operations employing this type of tenant/landowner lease. Not only will it be more difficult for farmers to finance production costs, but it will greatly limit the cost savings expected from this proposal—if not eliminate it entirely.

(2) Increasing Flex Acreage: We believe that this is a very ominous budget cut which will come directly out of farm income and will further weaken the economic condition of many farmers and farm communities. As the unpaid acreage increases more farmers will find the program to be lacking in sufficient benefits compared to the cost of setting aside acreage and complying with the conservation provisions of the farm bill. This could severely reduce the levels of program compliance.

(3) Elimination of 0/92, 50/92: The proposal to eliminate the 0/92 and 50/92 programs is expected to generate a budgetary savings of $580 million. This is a very optimistic estimate of the potential savings, if there are any at all. Without the use of offsetting annual acreage reduction programs (ARPs), over 12.1 million acres would return to production. Without some offsetting actions, crop production will rise, prices will fall and deficiency payments will increase. And even if ARPs were to be increased, impacts on ARPs are not evenly distributed across all commodities.**

In addition, there are hidden costs involved in the elimination of the 0/92 and 50/92 programs. These programs require conserving use crops which tend to provide substantial soil conservation benefits.

**Annual ARPs would need to be increased by 3.4 percent for corn; 9.8 percent for grain sorghum; 13.9 percent for barley; 14 percent for oats; 5.3 percent for wheat; .7 percent for cotton; and 8.5 percent for rice. Increasing ARPs by this much would reduce net farm income by $805 million.

— Page 5 —

(4) Grazing Fees: The budget proposal calls for an increase in grazing fees on Bureau of Land Management (BLM) and Forest Service rangelands. Nearly 20 percent of the Forest Service rangeland and approximately 10 to 12 percent of the BLM rangeland is now in non-use status. Further increases in the fee charged to permittees will cause a significant decline of Animal Unit Months (AUMs) leased. Not only will this result in a loss of federal revenues, it will destroy a renewable, non-fossil fuel-dependent food source that has existed for generations in the West. Additionally, the resultant fallout from this action will have severe impacts on the rural economy of the West as well as much of the Corn Belt where these cattle and sheep are fattened and processed.

The proposed increase of $76 million in additional federal revenues over a four-year period, is shocking enough, but is even more so because this is only a net figure. When the state's share of grazing fees and the Rangeland Improvement Funds are deducted, the current grazing fee would be well beyond the point where livestock producers can justify continuing grazing operations on federal land.

(5) Increased User Fees and Assessments: The budget proposal, as currently structured, seeks to raise an additional $900 million over four years through additional assessments and user fees. There appears to be no relationship between program costs or benefits and the increased burden that will be borne by producers. If we examine federal expenditures associated with the dairy program for example, we note a substantial decline from the mid-1980s to the present. Costs are not increasing and official estimates do not project an increase in the near future, yet it appears that dairy producers will be hit with a 67 percent increase in their "milk tax" or assessment. This would place their assessment at about 19 cents per hundredweight of milk sold and would generate approximately $288 million. This could come close to equalling, or in some years exceed, the government costs associated with the program. This is not an equal sharing of the burden of deficit reduction.

U. S. producers are placed at a disadvantage in domestic markets since their production costs are raised by the amount of the increased assessment, while imported products have no similar levy to contend with. This makes our producers less competitive and places them at financial risk.

We are also concerned about plans to increase inspection fees for meat and poultry by $416 million. A basic responsibility of the federal government has been to provide for the health and safety of the American public. The meat and poultry inspection system has

been designed to ensure public health. Consumers are the primary beneficiaries from the system rather than producers and thus should bear responsibility for its funding. Attempts to shift the cost to producers or industry will erode consumer confidence in the system and place additional stress on the rural economy.

Conclusion: The American Farm Bureau is concerned that President Clinton's proposal for reducing the deficit, if enacted, will severely damage conditions for agriculture. The energy tax will increase production costs, reduce farm prices and will cause our products to be less competitive in world markets. Budget cuts for commodity programs would eliminate some very effective programs and add instability to the agricultural economy. In light of the very significant and painful budget savings that agriculture has absorbed over the past eight years, this burden is excessive.

Farm Bureau welcomes the opportunity to work with the Congress to improve this budget proposal. Thank you for the invitation to present these views to this subcommittee today.

NFFC National Family Farm Coalition
110 Maryland Avenue, NE, Suite 307 • Washington, DC 20002 • (202) 543-5675 • Fax: (202) 543-0978

TESTIMONY OF DENISE O'BRIEN
VICE-PRESIDENT
NATIONAL FAMILY FARM COALITION
BEFORE THE HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON GENERAL FAM COMMODITIES
March 23, 1993

My name is Denise O'Brien. I farm with my husband and three children on a 180 acre farm in Southwest Iowa that has been in the family for four generations. We are diversified with a 30 cow dairy operation, organic fruits and free range chickens that are part of a women's cooperative called Homestead Pride. Unfortunately creativity, diversity, and organic does not translate into profitability and sustainability given the current farm prices we are receiving and our costs of production.

I appreciate this opportunity to present the National Family Farm Coalition's (NFFC) concerns about the rural economy and the impacts of the proposed budget. The NFFC represents 38 rural advocacy and family farm organizations in 30 states who are committed to ensuring the survival of the family farm system of agriculture.

The negative implications of the proposed economic package are not isolated but are in addition to the impacts of our export driven farm policy for the past twelve years. A NAFTA or GATT agreement with the current agricultural provisions further puts into question the ability of independent small businesses such as our family farm to stay in business.

The rural economy needs to be revitalized from the farm up. Federal farm policy plays a critical role in helping to make this happen. We would gladly purchase supplies, paint, and machinery in our local communities, but we need a decent income and cashflow to participate in the local economy. The only businesses getting support from my farm today is the vet due to weather induced illnesses of one of our best cows and the implement and seed dealers who charge 18% interest on our accounts that are due. We continually need to repair with welding rod and drive a tractor that pops out of gear just to keep on going. For many farm families and others across the country, health insurance and medical care costs are exorbitant. Unfortunately it took a near fatal car crash last year without health insurance to put the need for catastrophic though still inadequate health insurance as our family's highest priority.

We do have hope in the new Administration and in this Congress that the real needs of farm families and rural communities will be addressed - not simply agri-business demands for high volume, cheap exports. We need farm programs that make sense to farmers, taxpayers and consumers. Farmers should be all three - but we have been paying too few taxes which hurts our local tax base and the national economy and consuming too few investments in our businesses. We absorb all the increased costs that get passed along - from increased energy costs, transportation, insurance, labor, and budget assessments, yet cannot pass on those costs since our price is set by federal farm policy, the grain trade and dairy processors. We too pay the processor profit at the grocery store and wonder why the price of milk and cereal goes up despite record low corn prices in Iowa and dairy prices that are still more than $4.00 per hundredweight below the cost of production.

We strongly support the continuation of the non-recourse loan program for wheat and feedgrains. It allows for the orderly marketing of the commodity and establishes a floor for the world market price while providing a grain reserve in times of shortage. We are very concerned that the marketing loan under discussion for the 1993 crop as the "GATT snapback" provision is simply another way to further force down the world market price. I can only guess that the theory was to ensure maximum production in retaliation for no GATT agreement by June 1992, but we had maximum production of corn, rock bottom prices, and still low exports. It would certainly make more sense to increase the domestic loan rate, reduce the budget in terms of deficiency payment levels paid to farmers, and hopefully raise the market price somewhat to increase real income levels for farmers around the country.

Even in our rural town of Atlantic, Iowa with 7500 people, many of my children's friends cannot understand how we can have acres of land, work 15 hour days yet don't have any money. In 1985 and 1986, our family used food stamps to survive. We are still eligible but have chosen not to use them due to both the social stigma and our lingering hope that our monthly income does in fact cover our basic needs. My kids however do receive reduced school lunches which should not be the case. We need to have a new food and farm policy that provides farmers with their costs of production enabling us a make a decent living and not be a further drain on already scarce resources for domestic programs.

The "Vision of Change" budget cuts for farmers are expanded cuts in the same areas as the 1990 budget agreement which were all budget driven to meet reconciliation requirements in the final days of the 1990 Farm Bill debate. In many cases farmers were hit twice - once in planned cuts in the Farm Bill and then again through the budget Act. Now, instead of seizing the chance for making positive change, these cuts merely expand on those very proposals. Ways to increase net farm income while cutting the budget such as increasing the commodity loan rate have been ignored. We call on OMB and CBO to assess the budgetary impacts and the ripple impacts of an improved rural and urban economy resulting from increased

farm income. Equally important is an analysis of the negative impacts of depressed farm income on other domestic programs including food stamps, school lunch, unemployment, housing assistance and other programs resulting from displaced farmers.

The three major cuts of concern in the Vision of Change document relating to farm income for small to medium size family farmers:

1) **An increase in the 15% triple base to 25% starting in 1996.** The "Vision of Change" book misrepresents the impact of triple base asserting that it has had both positive environmental and farm income impacts since 1990. For those small to medium size farmers who fall under the $50,000 payment limitation, there has been a direct cut of 15% in their farm program payments. For larger farmers who exceed the payment limitation, this simply keeps their acreage level under the cap. While there may be some "flexibility" based on non-payments, more than likely the farmer simply does not get a deficiency payment on that percentage of their acreage. In fact, the environmental consequences have been negative based on the need to increase production on the acreage still enrolled in the program - directly contrary to a program that would promote sustainable practices.

Proposal: Increase Loan Rates, not triple base to Save Budget $$
We urge the retention of the non-recourse loan rate with increased loan rate levels to the 5 year average price to meet the budget cuts instead of direct cuts in farm income from the programs. We call on this Subcommittee to work with us to ensure that the Congressional Budget Office and the Office of Management and Budget score loan rates correctly. The loan rate needs to be increased since it has been artificially depressing market prices to supposedly promote our exports, yet the reality has been forcing my neighbors out of business. Record low commodity prices has not translated into the record exports. In fact, the Export Enhancement and Market Promotion Program cost taxpayers with no farmer benefit.

The Bush Administration consistently used all their discretionary authority to ensure that the loan rate was at its lowest level. This has cost both us as farmers and taxpayers while not benefitting consumers since their grocery store prices have continued to increase despite record low farm-gate prices. The target price is supposed to have some relevance to the cost of producing the commodity yet it has been frozen for budget reasons since the early 1980's. The costs of production - labor, inputs, taxes, energy, transportation, health insurance, have increased dramatically over the past ten years.

2) **A 67% increase in assessments on non-program crops including dairy, tobacco, peanuts, soybeans.** The argument that cuts should be consistent for both program and non-program crops ignores how the programs operate. Assessments are a direct tax on my production. We pay 11.25 cents/hundredweight since our production exceeded last year's level. The proposed budget increases this level to 20 cents/hundredweight. Without any increases in the

support we have little option but to increase our production level to cover increasing costs. We are very concerned about the rumors that the Food and Drug Administration is about to approve Bovine Growth Hormone. This raises even more serious questions about the dairy economy since the "super-assessment" would be triggered by overall government purchases exceeding 7 billion pounds directly penalizing those of us who would choose not to use it on our herds.

3) **A 25% cut in FmHA direct loans.** OMB wrongly assumes that guaranteed loans provide access to credit at lower interest rates and save the government money. The Reagan/Bush Administration consistently requested major cuts in FmHA direct loans, yet many of these were fortunately rejected by Congress, yet family farmers continue to have barriers to affordable credit. Minority farmers, beginning farmers, and small to medium size farmers have been the primary recipients, yet for many of us, these loans are out of reach due to a 10% cashflow requirement that is almost impossible given today's farm prices.

FmHA reports that for FY 1992, $279 million in FmHA direct loans was not spent despite pending applications. We hope that this was not the basis for the 25% cut, since we are hopeful that the new USDA and Clinton Administration will dramatically increase the effectiveness of the FmHA lending program.

Conclusion

I appreciate this opportunity to present these concerns today and look forward to working with this Committee to ensure that there is economic revitalization in rural America. Our farms and our communities desperately need help. We need a new direction and new priorities that look at farmers as part of the solution.

Testimony of Ron Rosmann

on behalf of the Center for Rural Affairs

and the Sustainable Agriculture Coalition

Good morning and thank you for this opportunity to testify. I am Ron Rosmann and am here today on behalf of both the Center for Rural Affairs and the Sustainable Agriculture Coalition. With my wife Maria and one employee, I farm a diversified, 480 acre farm in southwestern Iowa. We have a crop rotation of corn, soybeans, oats, and alfalfa, a stock cow operation of 60 simmiental cross cows, a farrow-to-finish hog operation producing 1,100 head/year, a broiler industry with 500/year, and a small tree nursery.

I have been farming for 20 years. We own two-thirds of our land and have virtually no off-farm income. Over the last 10 years, we have reduced our purchased nitrogen and other soil nutrients by two-thirds through better soil management without any yield reduction. Over the same period, we have reduced pesticides by close to 90 percent, with no yield reduction, through ridge-tillage and better cultivation technology. We have been able to do this in part because of the learning process of performing on-farm research trials to find out what works and what doesn't. I am a research cooperator with Practical Farmers of Iowa and Iowa State University and also serve on the Technical Review Committee for USDA's Sustainable Agriculture Research and Education program.

Less than half of our land has corn base, which is quite small for our area. My late father chose not to give up the rotation crops in favor of mono-cropping corn back in the 1950s. It has been a particular sore spot over the years that farms such as ours have been effectively penalized in the farm program for growing soil and nutrient conserving crops. I applaud the efforts to begin to change that condition with the Integrated Farm Management program, which we participate in. The program needs to be better publicized and administered in a more farmer-friendly way, however, and should be strengthened to encourage more participation.

Let me begin by saying there is much to praise in President Clinton's plan for stimulating the economy and reducing the deficit. Improved investment in human resources, food programs, the environment, and technological change, the emphasis on restructuring and revitalizing government, tax changes that are on balance progressive, and a realistic focus on deficit reduction are particularly welcome. We also look forward to a strong plan to deal with rural health care problems and health care for the self-employed, including farmers.

We agree with this Committee, however, that agriculture, especially the farm commodity programs, is slated for a grossly disproportionate share of the deficit reduction effort. It is important to remember that the farm programs are due for a second round of cuts in 1994 and 1995 as a result of the 1990 budget deal, even before any new cuts are taken into consideration. We strongly prefer the Senate budget resolution's $2.7 billion cut

in mandatory farm spending to the $4.9 billion in the Administration's proposal and House resolution and encourage you to work toward the lower number.

As important as the total size of the cut, however, is the content of the proposals and the distribution of the impact of the cuts. Among the strong points of the basic thrust of the President's economic plan is its overall vision of change and its emphasis on investment in people and communities and increased attention to environmental enhancement. Unfortunately, neither emphasis is apparent in the agricultural part of the total package and most of the proposals frankly sound like more of the same, rather than an effective vision of change.

The proposed farm program package is unfair and should be significantly modified. The 1990 budget deal, which included triple base, the recalculation of deficiency payments beginning next year, and substantial cuts in farm lending by Farmers Home, hit hard at farm income for small and moderate-sized farms, but did not reduce government support for the nation's largest farms at all. The nation's largest farms received $100,000 before the 1990 cuts, continue to receive $100,000 now, and would continue to do so under the President's proposal. If another round of budget cuts must be dealt with, it is time for the largest farms to make a significant contribution to deficit reduction. If this action is not taken, it will represent another choice, conscious or not, of government to continue to promote increased concentration of production and weaker, less healthy farming communities.

I also believe if there are no significant farm program reforms to target benefits to small and moderate-sized farms and beginning farmers and to base payments on how environmentally sound we farm, then someday soon there will be little left of farm programs at all, because the American public will not stand for it and neither will Congress.

The proposed farm program package does, at least, propose one form of targeting -- the $100,000 nonfarm income test -- for which it should be commended. If this proposal does move forward, care will be needed to craft it in a way that makes it enforceable. There may, however, be better ways to target payments and raise a good deal more revenue, as we suggest below.

If cuts must be made, we strongly urge you to put all options on the table and closely and carefully consider the probable impacts of each possible package on the structure of agriculture, on rural communities, and on the environment and natural resources. Do not be content with the major outline of the cuts proposed.

We urge you to consider a package that would:

- Reform payment limitation and eligibility rules by attributing all payments to individuals, eliminating the three-entity rule, requiring material participation (except for crop share landlords), considering a bushel/pounds limitation in conjunction with the dollar limitation to provide greater consistency between low and high deficiency payment years, and perhaps making any payment limit adjustments that may be necessary to maintain relative equity between crops.

- Establish a variable or graduated triple base, with perhaps three steps that increase the percentage of nonpaid acres as volume of production increases -- for instance, 10 percent on the first, basic unit of production, 40 percent on the next increment, and 100 percent above a certain level, with landlords and participants with high non-farm incomes not getting the benefit of the lowest bracket. The idea is that the greater the volume, the greater the reliance on the market without government payments.

- Strengthen implementation and improve the Integrated Farm Management program -- which unfortunately has been and continues to be administered in ways that contradict the letter and spirit of the law. The IFM program has the potential to not only improve the environmental performance of agriculture, but also to reduce production of program crops and strengthen prices and reduce costs. We urge the new administration to immediately amend program rules to bring them in line with congressional intent and urge this committee to look at strengthening the program.

- Implement the Targeted Options Payment (TOPS) program and the bushel-based supply control pilot program.

- Make modest, market-based increases in loan rates.

- Establish a new conservation and environmental paid diversion or bonus-TOPS program to improve the environmental benefit of acreage reduction efforts. Make payments for conservation practices such as field borders, contour grass buffer strips, grassed waterways, filter strips, and wildlife habitat. New rules might also be considered to allow farmers to contribute to supply control via lower yield goals and reduced applications of fertilizer, especially in areas vulnerable to groundwater contamination. Such a new environmental reserve would make up for any acreage reduction lost to ARP adjustments from tightening up on payment limitations and would help make up for supply control losses resulting from the proposed elimination of the 0/92 and 50/92 program.

These are the type of options which should be seriously and quickly pursued. Farm programs should not only provide some basic measure of supply and price stability, but also should support economic opportunity in agriculture and conservation/environmental benefit. Targeting is a fair way to make budget cuts, a good way to strengthen family farms and economic opportunity, and is consistent with improved program linkages to good stewardship. If this path isn't chosen, then farm programs will continue to take a disproportionate share of budget cuts until there is little or nothing left. Such a prospect would be a betrayal of farming communities and the environmental leadership potential of the agricultural sector. No short run budget option or package, therefore, should move forward if it does not take us a step or two forward toward a program that, by fostering economic opportunity and sound stewardship and by controlling costs, would once again have widespread public support.

I would like to make a few brief comments on the discretionary spending side of the President's economic plan and on the tax incentive proposals.

We strongly urge you to reject the proposed 25 percent cut in FmHA direct farm ownership and operating loans. The direct loan programs have already been cut to the bone over the last decade and should be cut no further. This is especially true as the agency gets ready to implement the new beginning farmer loan programs fashioned by this Committee last year. It would be tragic to cut off these new initiatives and the great promise they hold before they even get off the ground. The agency sorely needs to refocus on its mission of helping the next generation of farmers get started in the midst of the "graying" of the farmer population. It now has its orders to do so. Surely this is not the time to decrease resources. While the $42 million targeted to be saved over five years is very small compared to total package of agriculture cuts of over $8 billion, it represents an enormous decrease in loan availability through FmHA.

For agricultural research and extension, the President proposes substantial increases -- $348 million over five years -- in the National Research Initiative (NRI). We will urge your colleagues on the Appropriations Committee to bring a better degree of balance to the much needed increase in agricultural research and development by including parallel increases in the Sustainable Agriculture Research and Education programs. The NRI, while it has made some significant strides in the last year, still falls well short of the mark of implementing the research purposes guidelines and the sustainable agriculture emphasis directed by the 1990 farm bill.

Last, but definitely not least, we call your attention to the biggest increase in farm spending in the economic program, namely the tax incentives which will be dealt with by your colleagues on

the Ways and Means Committee. The investment tax credit, rural enterprise zone tax benefits, and the reinstated capital gains differential, separately or together, would not be beneficial for family farming and sustainable agriculture.

Removing a substantial measure of the tax shelters in agriculture was a major success of the 1986 tax reform. Reinstating them, even in somewhat more limited ways, will result in increased tax-driven nonfarm investment in agriculture, more tax-motivated investment in large-scale animal confinement facilities, more investment in expensive irrigation equipment to put marginal land in production, greater overproduction, lower prices for all farmers, more money flowing to the tax lawyer trade, and large revenue drains. The proposed tax breaks, if they are applied to production agriculture, would put family-sized farms, and especially beginning farms, at a competitive disadvantage based not on the market but on tax policy, and would further bias the system against rewarding the farmer's labor and management.

The administration has shown good sense in making agriculture ineligible for the proposed new small business capital gains tax break. In last year's failed tax bill, Congress showed good sense in putting size limitations on the application of the rural enterprise zone tax breaks to agriculture. We urge you to oppose the extension of all of the newly proposed tax incentive proposals to production agriculture. Ideally, some of the money saved, if possible within budget rules, should be redirected to positive proposals that support family farming, good stewardship, and a healthy environment.

In closing, let me say that the industrialization of agriculture is continuing to replace farmers and dislocate rural communities. The farm share of the agricultural dollar continues to decline and is now at the ridiculous low level of five percent. Despite the fact that bigger does not often mean more efficient, technology, capital, and policy continue to fuel bigger farms and industrial agriculture. Yet, I believe smaller scale, diversified farming will survive by forging new partnerships with nature, utilizing the best that new, low-cost technologies can offer, and regaining market share through new farm enterprises and value-added activities. It would be wonderful if federal policy would consistently support this transition rather than so often stand in its way.

Once the externalities -- including resource and environmental degradation and social and community costs -- are added to the costs of production, no model can compete with the diversified owner-operated farm. That's what this country was built on. Most of our forebears left the vestiges of the feudal system of agriculture to become owner-operators in this new land. We are now forsaking that model and going back to a form of feudal agriculture with a new peasant class who have contractual arrangements with corporations or wealthy absentee landlords. It doesn't have to be this way. There should continue to be room in agriculture for diversified owner-operated family farmers.

Thank you for listening. I'd be happy to try to answer any questions you may have.

(Attachment follows:)

This Land Is Your Land

BY RONALD L. ROSMANN

Four dollars for a bowl of cereal! Moscow, right? No, it's what I paid for oatmeal at a hotel in Washington, D.C., recently. I have to grow nearly four bushels of oats to get paid $4. I'm an Iowa farmer, and I had been invited by the United States Department of Agriculture to participate in a Grain-Users Advisory Workshop recommending how agricultural-research money should be spent. I was so angry, I practically choked on my oatmeal. Angry not at the price of the cereal but by what's happened to agriculture, farms and rural America, and society's ignorance and indifference. As Mary Lease, a fiery 19th-century populist, said: "You farmers need to raise less corn—and more hell."

There are fewer farmers every year. Our average age keeps going up, and so does the average size of our farms. For the past 20 years, I've kept a "Family Farms" file of newspaper clips—many full of politicians' rhetoric, espousing the values of, and the need to save, family farms. In 1940 there were 6 million farms; now there are 2 million, and the prediction is that there will be fewer than 1 million by the year 2000. The 400 largest farms in the country represent only about .02 percent of the nation's farms, but they account for about 15 percent of total farm income. Ours, a medium-size farm of 480 acres, which I work with the help of my wife and one employee, is doing well—for the moment. But we are concerned for our three sons, ages 6, 8 and 10, should they choose to farm.

An Iowa farmer says: 'We need to raise less corn—and more hell'

This country has lost the capability even to recognize the needs of rural America. Many "enlightened and educated" people haven't the foggiest idea of what is happening, nor do they care. Even farmers have been brainwashed into thinking little can be done: technology and big business's control of agriculture are just too powerful to counter, they figure. And as long as food is relatively cheap and abundant, the consumer doesn't seem to care how it's produced.

Small family farms are worth saving, and not for nostalgia's sake. We can never go back to the romantic scenes of Currier and Ives. But it appears the path we're following continues to dry up small- and medium-size family farms and the small towns and community values that go along with them. It's happening in the name of free enterprise and efficiency. Farm programs, initiated in the 1930s to help small farmers, have, over time, resulted in a major portion of the program going to large-scale agribusinesses. This encourages environmentally damaging practices on fragile lands. The more corn planted, the greater the subsidy. Some program modification is needed. We have a "cheap food policy," but is it cheap in its implications? What are the environmental and health costs of modern agriculture with its heavy dependence on pesticides?

Some small farmers are fighting for something called "sustainable agriculture," which simply means a system of agriculture that will last. In Iowa we call it "practical farming." With it, farmers are seeking environmentally sound and profitable farming techniques that rely more on management and labor skills than on pesticides, expensive technology, high capital outlay and big debts. We are not organic purists; we are trying to find a happy medium where pesticides are used sparingly. It means making a decent living on the small- and medium-size farms, not looking longingly over the neighbor's fence hoping his or her place will come up for sale.

Vibrant rural communities: My father's attitude from years ago about social responsibility and proper care of the land continues to offer me hope. My dad could have farmed twice the number of acres. Instead, my folks rented out two 160-acre farms to a neighbor for more than 35 years. Dad said it meant having another family in our community. Several farmers I know got a foothold in farming this way and are still successful.

Which brings to mind some agricultural myths:

- Bigger is better. A recent study showed that production cost doesn't vary much from 300 to 3,000 acres. (The medium-size farm is disappearing the fastest.)
- One third of the world would starve if pesticides were eliminated. I'm not advocating that pesticides be banned. On our farm we have reduced their use by more than 75 percent in the last 10 years, and our crop yields have actually increased. We have relied on crop rotations and improved cultivation with ridge tillage, a version of "raised bed" gardening.
- Food prices would rise significantly if producer prices increase. You only have to examine a box of cereal to figure out that the farmer gets about 2 percent of what the product costs the consumer. A fairer way of pricing could be decided by the actual cost of growing products. As the system works now, huge producers who use large amounts of pesticides and drain the land of its nutrients through overplanting get the same price support as smaller farmers using more ecologically sound—and expensive—methods.

Politicians and government officials need to recognize that although very few people could produce all the food we consume, that is not in our best social and environmental interests. We must emphasize working with natural biological systems of growth to ensure long-term food safety and availability. We need a farming system that sustains a large number of farms and farmers and supports strong, vibrant rural communities. How many members of Congress who determine farm policy have a true handle on how a farm operates, how the needs and concerns differ in various parts of the country?

Growing food, living in communion with the land and nature, raising livestock, guiding our children, having something to call our own—all these things give life meaning. I believe there is still a bit of farmer in all of us and that, given the choice, many would try this way of life. If we fail to see this and continue to move toward the corporate form of agriculture, the loss will be everyone's.

Rosmann is a grain and livestock farmer in Harlan, Iowa.

NATIONAL FARMERS UNION

STATEMENT OF THE

NATIONAL FARMERS UNION

BEFORE THE

SUBCOMMITTEE ON GENERAL FARM COMMODITIES
U.S. HOUSE OF REPRESENTATIVES

MARCH 23, 1993

PRESENTED BY

LELAND H. SWENSON, PRESIDENT

600 Maryland Avenue, S.W. • Suite 202W • Washington, D.C. 20024 • Phone (202) 554-1600

Thank you, Mr. Chairman, and congratulations on becoming the head of this important subcommittee. I am here today on behalf of the 250,000 farming and ranching families of the National Farmers Union. NFU appreciates this opportunity to comment on the impact of the President's economic plan for agriculture.

On February 3, 1993, NFU Vice President for Government Affairs Mike Dunn presented to the full committee, NFU's outlook for agriculture for 1993. I have attached a copy of that testimony to this statement, along with special orders of business adopted by the National Farmers Union at its annual meeting earlier this month.

Since Mr. Dunn's testimony was presented, President Clinton has released " A Vision of Change for America". Therefore, I will focus my testimony on how NFU perceives the president's economic plan will affect agriculture.

The National Farmers Union supports the concepts outlined in President Clinton's economic program as outlined in "A Vision of Change For America". We believe that there is a need to stimulate the economy, to invest in people and the nation's infrastructure, to reduce the federal deficit, and to reform the nation's tax system. NFU commends the president for offering a plan to begin this process.

In presenting his plan, the president has encouraged comments and suggestions to improve the package. As a general purpose farm organization representing 250,000 farmers and ranchers, the National Farmers Union offers its view of the proposal and pledges to work with the Clinton administration and Congress on specifics to improve the proposal and accomplish its objectives.

In order for NFU to provide positive and constructive criticism of the plan, an understanding of its social and economic impact is needed. To assist in the process of evaluating the specific programs within the proposal, NFU requests that the administration and Congress provide economic models of the impact of the proposal on family farms. NFU is willing to work with the U.S. Department of Agriculture and the House Agricultural Committee to design these models.

Our statement today is intended to respond only to those portions of the economic plan which are projected to go into effect immediately. NFU will offer later a series of proposals for programs for the 1995 farm bill that would go into effect after FY 1995.

The president's plan assumes that the greatest change in agriculture will occur after the 1995 farm bill. This will allow Congress and the administration to have a two-year window of opportunity to work out how agriculture could achieve the cuts outlined by the president and still protect family farmers.

We should not make the mistake of adopting the increase in the flex acres and user fees outlined in the president's plan simply because it was printed in the plan. Instead, we should view this as a simple guideline for the amount of savings that could be achieved in the agricultural sector.

I would be neglecting my duties as a representative of a general purpose farm organization if I did not point out that production agriculture has already contributed a great deal to the reduction of the national debt. As pointed out in Mr. Dunn's testimony, it is the only entitlement that has suffered a reduction of outlays in the past and is scheduled to be reduced even further.

In figure 1., I point out the impacts on the production sector within the agricultural budget. You will note that agriculture overall is to be increased by $6.2 billion. However, in examining the components of the sector, we find that farm programs will decrease by approximately $4.2 billion, with gains in the rural development and nutrition program areas.

We do not disagree with the stimulus and investment increases that the president calls for in his economic plan. NFU is very supportive of this proposal; however, we must point out that the first rule of economic development is to protect and expand existing industry, which is what agricultural production is for rural communities.

I would also point out that protecting family farms will insure a supply of affordable food and fiber for all sectors of our economy. If we are to lose family farmers, then we will increase the number of workers who will need to be retrained, thereby possibly increasing the rolls of those requiring nutrition program assistance.

I should point out that there is a difference in the amount of cuts required by the House budget adopted last week and the one approved by the Senate Budget Committee. The Senate version calls for less of a cut in the farm programs.

figure 1.

AGRICULTURAL BUDGET IMPACTS OF CLINTON ECONOMIC PROPOSAL (without taxes)				
	Sacrifice	Stimulus	Investment	Net
Farm Pay	-4,183	- 0 -	- 0 -	-4,183
Inputs & Marketing	-455	- 0 -	- 0 -	-455
Research	-321	38	- 0 -	-283
Natural Resources	-274	235	- 0 -	-39
International	-568	- 0 -	- 0 -	-568
Rural Development	-374	360	1,486	+1,472
Nutrition	- 0 -	102	11,989	+12,091
Administraton	-1,835	- 0 -	- 0 -	-1,835
Total	-8,010	+735	+13,475	+6,200

I ask that members of this subcommittee and of the full committee support the Senate version in this area. It would be very helpful if the members could communicate this support to the budget conferees and allow the House to recede to the Senate on this issue.

REVENUE GENERATION

We support increasing revenue by raising the cap on personal income tax on those in the top income bracket. The progressive nature of generating new revenue from the wealthiest is a step in the right direction to restoring fairness to the nation's tax system.

We further support the concept of generating additional revenue by taxing foreign corporations on profits earned in America equal to that paid by domestic corporations. And, we support the elimination of tax incentives for American corporations to move to other countries.

ENERGY TAX

NFU has some serious reservations concerning the BTU tax proposal. Farming is an energy-intensive enterprise. High BTU consumption is present in production agriculture. Planting, irrigating, and harvesting activities require large volumes of fuel. Agriculture is heavily dependent on transportation for marketing its production. And, farms by definition are located in remote areas, requiring higher-than-average fuel consumption for everyday activities.

We have seen some projections which indicate the BTU tax could result in a 10 percent reduction of net farm income for family farms. If this is the case, it would be inconsistent with the intent of the president's proposal to restore fairness to the nation's tax system.

Again, we request that the administration and Congress provide an economic model to show the ramifications of this proposal for agriculture and rural communities. If this measure results in an unfair economic burden on the agricultural sector, there are a number of solutions.

One solution would be to design farm programs to allow for greater income for agriculture to offset the increase in the BTU tax. A second approach would provide an agricultural exemption of all or a percentage of the tax so that agriculture pays a share proportionate to other sectors of the nation. A third option would be to eliminate the measure and cut back on an equal amount of

investment proposals. A fourth solution would be to eliminate the proposal and get the needed revenue from a more progressive tax source, such as income tax. A fifth approach would be to provide a credit for energy generated by renewable sources such as windmills or solar panels.

NFU is willing to work with the administration and Congress to design farm programs that will provide greater marketplace income for producers. These programs could include higher loan rates, higher ARP rates, implementation of the TOP program, a marketing loan program, and implementation of the bushel-base program.

The National Farmers Union has similar concerns on the inland waterways fees proposed. This would be especially burdensome on agriculture producers from the upper Midwest.

ECONOMIC STIMULUS

Investment tax credits, if approved, should be designed to stimulate long-term investments which provide for new jobs. We believe that a properly designed ITC can encourage new enterprises in rural communities and could be a stimulus for encouraging new family farms and an opportunity for elderly farmers to sell their operations to beginning family farmers.

We would be opposed to an ITC that encourages speculation in agricultural real estate. This artificially drives land prices above production value and encourages absentee and corporate ownership of farms. Furthermore, we oppose investment tax credits that encourage concentration and vertical integration in the agricultural sector.

In the agricultural sector, equipment investments often consist of used equipment. The proposal to disallow used equipment for ITC should be dropped.

FEDERAL SPENDING CUTS

--FARM PROGRAMS:

The president's proposal provides for a means test by disallowing farm program payments to individuals with an off-farm adjusted gross income in excess of $100,000. NFU is opposed to this proposed measure.

The implementation of this proposal would undermine the very premise of why the nation has farm programs. They are needed to provide price and supply stability to insure

that the nation has a safe, reliable and constant source of food and fiber.

The farm support programs were not created to be income maintenance programs. They are contracts by the federal government with farmers and ranchers for supply management of commodities. And, in recent years it has been expanded to contract with land owners to provide for environmental measures that are deemed to be for the good of the nation.

By disallowing participation in farm programs because of an individual's income, the proposal weakens the ability to provide for supply management and environmental measures. It changes the farm program to an income maintenance or welfare program.

In addition to NFU's philosophical objections, the proposal would be extremely difficult to administer. It would require farm program participants to provide tax records to their ASCS office of not only the individual farming the land, but that of the landlord in the case of a rental situation. Many landlords would not provide the necessary documentation and many farmers would be forced out of the farm program.

NFU believes that this proposal should be scrapped to preserve the integrity of the farm programs. Savings that were to be gained by this measure could be recouped by designing the farm programs to cost the government less, as we have proposed earlier. In addition, there are other ways to reduce government payments in the farm programs without disenfranchising anyone.

NFU believes that farm program benefits can be targeted to family-sized operators without totally exempting any farm operation. This can be accomplished in direct payment programs by making payment on units of production, with maximum payment targeted for units of production of family-size operations.

Again, NFU would be willing to work with the administration and Congress to design programs that would accomplish these goals.

--CROP INSURANCE:

NFU is opposed to the proposal to limit the benefit of federal crop insurance. Rather than trying to achieve cost savings by cutting back on insurance benefits, NFU believes that savings can be accomplished by better management of the program and expanding the participation.

Innovative management of the federal crop insurance program can make the measure a viable program that could save money by attracting new users. If disaster assistance expenditures could be eliminated as a result of the improved crop insurance program, actual outlays for the combined programs could be significantly reduced.

--USDA REORGANIZATION:

NFU opposed the reduction of FmHA direct lending by 25 percent. At the present time, the average age of American farmers is approaching 60. There is a real need to get young people involved in farming. In the past, FmHA direct loans have been the means to provide credit needed to get these folks started.

The guaranteed FmHA loan has not been successful in getting young people started in farming. Instead, private credit institutions have used the guaranteed program to underwrite loans in their current portfolio that might be experiencing difficulty.

NFU believes that by improving management of FmHA and providing supervised direct credit, FmHA can show substantial government savings by converting nonperforming loans into performing ones. This would require a commitment of the entire USDA team to provide the necessary financial, farming and marketing training needed to improve the credit quality of FmHA's current and future borrowers.

Additionally, FmHA has a large inventory of acquired property in inventory that can be sold to FmHA qualified borrowers on a contract basis. This could result in an increase of revenue that would more than offset the saving under the president's proposal.

NFU believes that until the Clinton administration can get its USDA team in place to provide this supervised credit, FmHA should cease foreclosure activities. Again, we believe that saving on foreclosure and legal fees would offset any cost of this temporary delay.

NFU agrees that USDA can show substantial savings by reorganizing. We encourage USDA not to develop the plans for this reorganization in a vacuum. There should be public hearings to garner input from farmers and ranchers on how the reorganization should take place. Emphasis should be placed on how the offices can become more responsive to the needs of the users.

As a part of the USDA reorganization, consideration should be given to merging the RDA back with FmHA. The FmHA has developed a delivery system that can provide government services to local areas.

In recommending this measure, NFU is assuming that the Clinton administration will redefine the mission and redirect the efforts of FmHA to make it a more efficient and effective agency.

Mr. Chairman, I thank you for the opportunity to let NFU express its views on these matters. We stand ready to work with you and the administration to make those changes we feel are needed. I will answer any questions that you might have.

(Attachments follow:)

SPECIAL ORDER OF BUSINESS

CLINTON ECONOMIC PLAN

Adopted at the National Farmers Union Convention
March 5-8, 1993

We commend President Clinton for presenting an economic stimulus proposal designed to bring down the federal deficit, put people back to work, and get the economy moving again.

We also commend the President for moving swiftly to reorganize and streamline the federal government bureaucracy. We further commend him for preparing a plan to streamline the U.S. Department of Agriculture in order to make it more "farmer friendly."

We, the members of the National Farmers Union, support President Clinton in these endeavors as long as there are plans in place which provide agricultural producers a fair and equitable income.

Due to the present depressed economic condition on America's family farms, individual producers should not be assessed additional taxes which cannot be recovered from the marketplace.

In particular, because the agriculture industry is heavily energy dependent, being the nation's fifth largest user of energy, the proposed BTU tax will have a particularly detrimental impact on this sector of the economy.

NFU favors targeting farm program benefits over means testing. Targeting farm program benefits to the production levels of family farm operators would reduce government costs while furthering the sustainability of our family farms, our rural communities, and our national economy.

While NFU agrees that rural development projects are important, we strongly believe the fastest way to revitalize rural America would be through increasing the profitability of the family farmer. Every dollar generated by a family farm operator is re-invested seven times throughout the economy.

Therefore, it is imperative that National Farmers Union, representing more than 250,000 of America's family farmers, be intricately involved in working with the Clinton Administration to develop economic models which accurately demonstrate the ramifications of these proposals on family farm agriculture and rural America.

We applaud Secretary of Agriculture Mike Espy's announcement, at our 1993 annual convention, of the Clinton Administration's intent to have a close working relationship with members of National Farmers Union. The National Farmers Union enthusiastically accepts this offer to work with the Clinton Administration to design a farm program that will target benefits to family-sized farms while at the same time reducing the federal budget deficit.

NATIONAL FARMERS UNION
91ST ANNIVERSARY CONVENTION
SIOUX FALLS, SOUTH DAKOTA
MARCH 5-8, 1993

SPECIAL ORDER OF BUSINESS

INCREASING COMMODITY LOAN RATES

WHEREAS, the Clinton Administration has proposed a comprehensive economic plan designed to stimulate the national economy and reduce the federal deficit, which we believe to be worthwhile goals; and,

WHEREAS, a healthy farm economy is essential to a healthy national economy; and,

WHEREAS, during the past 12 years farm commodity prices have continually decreased while farm production costs have risen dramatically, resulting in a negative impact on our nation, especially its rural areas; and,

WHEREAS, the most important first step which can be taken to revitalize the United States would be to allow agricultural producers to receive prices which equal the cost of production, plus a reasonable profit; and,

WHEREAS, an increase in commodity loan rates will have an immediate positive effect on increasing commodity prices which, in turn, will help achieve this Administration's goals of revitalizing our country; and,

WHEREAS, increasing commodity loan rates also will result in a net savings in total farm program costs because of a significant savings in deficiency payments, thereby helping to reduce the federal deficit.

THEREFORE, the National Farmers Union calls upon Secretary of Agriculture Mike Espy to immediately utilize his discretionary authority under the law to increase commodity loan rates to strengthen market prices so that farmers once again will receive more of their income from the marketplace, rather than from the federal Treasury.

SPECIAL ORDER OF BUSINESS

INLAND WATERWAYS FUEL TAX

Adopted at the National Farmers Union Convention
March 5-8, 1993

National Farmers Union is opposed to the proposed 525 percent increase in the Inland Waterways Fuel Tax contained in the Administration's economic proposal.

A comprehensive strategy for improving the economic condition of U.S. agricultural producers must include improvements in commodity transportation systems. Maintaining export competitiveness, conserving energy resources, and increasing the farmers' share of the consumers' food dollar are objectives which necessitate close vigilance of factors affecting transportation costs.

Barges within inland waterways transport over half of all exported grain. Barges use less fuel per ton-mile than any other bulk commodity system, and the low-cost operation of barge transportation minimizes the downward pressure on producer prices by lessening the total cost of food delivery.

Initial studies estimate that this proposal will increase the cost of barging grain by about $.10/bushel, in addition to the $.10/gallon BTU tax also proposed. We firmly believe that such cost increases will be borne disproportionately by U.S. farmers. Therefore, we request the leadership of National Farmers Union to urge Congress to reject this proposed tax increase in the Inland Waterways Fuel Tax.

SPECIAL ORDER OF BUSINESS

SUSPENSION OF PENDING FMHA FORECLOSURES

Adopted at the National Farmers Union Convention
March 5-8, 1993

National Farmers Union had recommended to the Clinton Administration a list of actions deemed necessary to revitalize the nation's rural sectors. Better known as the NFU 100-day plan, this list included a request for a moratorium on FmHA farm foreclosures pending a review of agency practices relating to financally stressed farmers.

After only four weeks in his official capacity as U.S. Secretary of Agriculture, Mike Espy recognized the wisdom upon which this recommendation was based. Demonstrating a genuine concern for distressed farmers, Secretary Espy appropriately announced at NFU's annual convention, a suspension of FmHA farm foreclosures pending a review of past agency actions by an independent review board.

We are pleased with this positive beginning and pledge to work with Secretary Espy to facilitate the process of resolving this symptom of our underlying agricultural crisis. We believe this step will help bring focus to the primary objectives of FmHA.

As this first step is taken, we recognize that the farm credit crisis is a warning signal that the agricultural economy is in trouble. To deal with the credit crisis we must also address the income side of the equation. Without improved farm income, the suspension of FmHA foreclosures will be a futile temporary reprieve.

Higher commodity and dairy prices resulting from cost effective price support increases are the only thing that will stem the decline of the family farm.

We therefore pledge to work with Secretary Espy and the Congress to develop programs for improved farm income to America's family farmers so that this beginning can truly bring a renewed sense of hope for the future for rural America.

GREG LAUGHLIN
14TH DISTRICT, TEXAS

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION

SUBCOMMITTEES
SURFACE TRANSPORTATION
AVIATION
WATER RESOURCES

COMMITTEE ON
MERCHANT MARINE AND FISHERIES

SUBCOMMITTEES
COAST GUARD AND NAVIGATION
FISHERIES AND WILDLIFE CONSERVATION
AND THE ENVIRONMENT

Congress of the United States
House of Representatives
Washington, DC 20515-4314

WASHINGTON OFFICE
218 CANNON BLDG
WASHINGTON, DC 20515-4314
(202) 225-2831

DISTRICT OFFICES
312 SOUTH MAIN STREET
VICTORIA, TX 77901
(512) 576-1231

CITY HALL
221 EAST MAIN
SUITE 203
ROUND ROCK, TX 78684
(512) 244-3765

March 23, 1993

The Honorable Tim Johnson
Chairman
General Farm Commodities Subcommittee
1301 Longworth
Washington, D.C. 20515

Dear Congressman Johnson:

I am writing to request that an additional question be asked of Dr. Ron Knutson, a witness at today's hearing of the General Farm Commodities Subcommittee.

In Dr. Knutson's testimony he summarized his analysis of the farm level impacts of several possible agricultural budget cuts. I am very aware and supportive of Dr. Knutson's work, but I was very surprised to see analysis done on Arkansas and California rice farms, but not on Texas rice farms.

I would greatly appreciate it you could include in the hearing record the following questions and Dr. Knutson's responses:

- Why was analysis not done on Texas rice farms?

- What would be the impact of the analyzed budget cuts on Texas rice farms?

Thank you for taking the time to consider my request. I appreciate all of your hard work on behalf of American agriculture.

Sincerely,

Greg

Greg Laughlin
Member of Congress

U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities
Room 1301, Longworth House Office Building
Washington, DC 20515

March 24, 1993

Dr. Ronald Knutson
Director
Agricultural and Food Policy Center
Texas A&M University
College Station, TX 77843-2124

Dear Dr. Knutson:

On behalf of the Subcommittee, I want to thank you again for your contribution to the March 23rd hearing. We appreciated your input and the analysis performed by you and your staff. I am writing to forward along a request from my colleague, Greg Laughlin, regarding the probable impact of the Administration's deficit reduction proposal on a Texas rice farm.

I am hopeful that this request will be fairly simple for you to carry out since you do have a model Texas rice farm in your program. I have enclosed a copy of the letter from Congressman Laughlin for your information.

I appreciate your cooperation in this effort and look forward to your response for the hearing record.

Sincerely,

Tim Johnson

TPJ:als

Enclosure

RESPONSE TO QUESTION OF GREG LAUGHLIN DATED 3/23/93

Q. Why was analysis not done on Texas rice farms?

A. Under the Baseline and the provisions of the 1990 farm bill, the Texas rice farms, located on the West side of Houston, were already losing money. In fact, the simulation results indicated that the larger farm (3,900 total acres of which 1,300 acres are planted) went bankrupt in 1995. Under these circumstances, the Texas rice farms obviously could not withstand the further reductions in government payments that are inherent in the increased flex proposal and in eliminating 50/92.

Q. What would be the impact of the analyzed budget cuts on Texas rice farms?

A. These farms have no flex options and do not participate in 50/92. The increase in nonpaid acreage by 15 percentage points (10 percent increase in NFA and 5 percent in ARP) would come directly out of the net cash income, which falls correspondingly. These representative farms would suffer financial failure even sooner.

REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL AND ITS IMPACT ON FARM COMMODITIES

THURSDAY, APRIL 22, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:05 p.m., in room 1302, Longworth House Office Building, Hon. Collin C. Peterson (acting chairman of the subcommittee) presiding.

Present: Representatives Volkmer, Long, Minge, Pomeroy, Stenholm, Sarpalius, Condit, Barlow, Bishop, Emerson, Smith, Barrett, Nussle, and Boehner.

Staff present: Joseph Muldoon, associate counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple, clerk; Anne Simmons, Anne C. Keys, Merv Yetley, and Neil P. Moseman.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. We'll call the subcommittee to order. We're hoping we're not going to have a vote here, and we'll see how it goes.

I want to welcome everyone to this afternoon's hearing, the third and final in a series of hearings on the economic outlook for general farm commodities. Our witness today will be Dr. Keith Collins, who is the Director of the Economic Analysis Staff of the Department of Agriculture, and is currently serving as the Acting Assistant Secretary for Economics at USDA.

Congressman Johnson is unable to chair today's hearing, as he's attending the memorial services for the South Dakota Governor, George Nicholson, at the State capital today, and we all send our condolences to that terrible situation that happened out there, but he felt that today's hearing should go on as scheduled—it had been postponed one other time, and there is some deadline facing the committee, so we decided to go ahead with the hearing.

As you, I think, are all aware, the Agriculture Committee has been sent the numbers to reach for budget reconciliation purposes. So one of the things we want to focus on today is what the impact of the proposed budget cuts are going to be on the commodity markets and commodity programs, and get some assessment of the impact that those requirements will have, once we go through reconciliation, and what the general outlook is.

68-362 O - 93 - 11

Thank you.

[The letter of March 26, 1993, from Mr. Johnson to Secretary Espy follows:]

U.S. House of Representatives
Committee on Agriculture
Subcommittee on General Farm Commodities
Room 1301, Longworth House Office Building
Washington, DC 20515

March 26, 1993

The Honorable Mike Espy, Secretary
U.S. Department of Agriculture
200-A Administration Building
Washington, D.C. 20515

Dear Mr. Secretary:

On April 14, 1993, at 1:30 p.m., in 1300 Longworth House Office Building, the Subcommittee on General Farm Commodities will hold a hearing to review the economic outlook for farm commodities and how the President's economic proposal would affect this outlook. This hearing will help Members' understanding of the economic situation in the agricultural sector of the U.S. economy.

I ask that you provide a witness for this hearing to inform the Subcommittee of the supply and demand outlook for rice, cotton, feed grains, wheat, and oilseeds. Also, in the Department's testimony, please include how this outlook would change if the President's proposals to reduce agricultural spending were enacted. The Subcommittee also would like an explanation of the amount each commodity program has contributed to savings mandated by the 1990 Omnibus Budget Reconciliation Act, and the amount each would contribute to savings if the proposed 1993 program cuts were enacted. Also, with regard to the 1990 budget cuts which will take effect next year, please estimate the amount each commodity program will be reduced.

In addition, the Subcommittee would appreciate a detailed analysis of farm income if the President's proposed cuts were enacted. In doing so, explain which type or types of farms would most likely suffer the worst financial stress. Finally, any analysis the Department can provide on how the proposed energy taxes would affect farmers and the agricultural sector would be helpful.

The Honorable Mike Espy
March 26, 1993
Page Two

Please have your staff get in touch with Anne Keys, of my Subcommittee staff, at 225-0301, to inform her of the person who will be testifying for the Department. As usual, the Committee requires 100 copies of the Department's testimony at least 24 hours in advance of the hearing.

With best personal regards, I am

Sincerely,

Tim Johnson, Chairman
General Farm Commodities
Subcommittee

Mr. PETERSON. With that, I will call on the ranking minority member, Mr. Emerson.

Mr. EMERSON. Mr. Chairman, in the interest of time, I do have a rather lengthy statement. I would ask that my testimony be submitted to the record.

Mr. PETERSON. Without objection, your prepared statement will appear in the record.

[The prepared statement of Mr. Emerson follows:]

BILL EMERSON
MEMBER OF CONGRESS
8TH DISTRICT, MISSOURI

HOUSE COMMITTEE ON AGRICULTURE
HOUSE COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

SELECT COMMITTEE ON HUNGER

Congress of the United States
House of Representatives
Washington, DC 20515-2508

OFFICES
SUITE 2454
RAYBURN BUILDING
WASHINGTON DC 20515-2508
202/225-4404

THE FEDERAL BUILDING
339 BROADWAY
CAPE GIRARDEAU MO 637..
314 335-0101

612 PINE
ROLLA MO 65401
314 364-2455

STATEMENT OF CONGRESSMAN BILL EMERSON
BEFORE THE GENERAL FARM COMMODITIES SUBCOMMITTEE
REVIEW OF THE PRESIDENT'S ECONOMIC PROPOSAL
AND THE RELATED ECONOMIC OUTLOOK FOR AGRICULTURE
APRIL 22, 1993

Mr. Chairman, I thank you for holding this important hearing on the President's economic proposal and the related economic impact on American agriculture, rural communities, and local jobs. This issue is important because it impacts the bottom line of farming and that in turn impacts on jobs. Local farming families, their future farming generations and the agricultural communities that they live in have a great deal at stake under the President's package.

Indeed, farming-dependent communities remain deeply concerned by the principal make-up of the President's economic plan which forces American agriculture to shoulder a disproportionate share of the budget reduction burden. Unfortunately, I fear this is going to have a devastating and extremely negative impact on the sustained livelihood of the Missouri family farmer and jobs on Missouri's main street.

We have proved to the rest of this nation that American agriculture is willing to pull its fair share of the deficit reduction load -- but now President Clinton's economic plan sacrifices the economic health and stability of our rural towns and communities to pay for increased spending in other budget areas. This is flat unfair and will cause economic harm to the backbone of this nation's food and fiber production efforts.

In President Clinton's plan, farm producers, who represent less than 2 percent of the population, are being asked to shoulder nearly 10 percent of the non-defense related budget cuts. This burden combined with the proposed BTU energy tax, Barge Fuel Tax or Inland Waterway User Fee, increased personal income tax, and other agricultural user fees means the American family farmer gets hit harder than any other segment of the American population represented in the federal budget. This is simply unfair and inequitable.

Certainly, an increase in taxes will have a tremendous negative affect on this nation's hard-working farmers and local agri-businesses -- namely, the local Main Street. For example, the President's economic plan will increase barge fuel taxes by 525 percent, from $.19 to $1.19 per gallon. This tax increase will decimate the domestic barge industry which is so critical to farm producers in the Mississippi Delta region along with producers throughout the Midwest and South. Communities, small and large, that depend on river traffic will also feel the broad detrimental impact of this tax increase.

Equally important, the increased costs of the Inland Waterways fuel tax cannot be passed on to the end purchaser in foreign ports. Rather, the lion's share of the tax will be passed on to the local farmer in the form of lower prices for grain and livestock at the farm gate. By unfairly singling out this industry so vital to our nation's transportation network, the new Administration is prescribing a serious blow to the viability of future family farming operations and local jobs.

This tax coupled with the BTU Energy Tax could easily cost more jobs in the agricultural arena than the package purportedly intends to create. I am aware of industry estimates which state that the cost per gallon of gasoline will increase by over 7 cents, diesel fuel by 8 cents, and propane by 2 cents. When Missouri farmers are trying to squeeze a nickels worth of profit out of a bushel of grain, a bale of cotton, or a pound of beef or pork -- increasing the cost of production through more taxes just won't pay the bills.

Unfortunately, increased fuel costs are just the beginning. Fertilizer, pesticides, herbicides, livestock feed and supplies, machinery, and even the tires on farm equipment will cost more through this energy tax proposition. Manufacturing estimates show anhydrous ammonia alone could rise by as much as 40 dollars per ton. Drying, ginning, grain storage, and livestock production costs along with transportation and electricity expenses will also go up.

The local banker and farm credit office must also be considered. The reduced profitability of farming through increased taxes, higher costs, more paperwork, and added government regulations will make the trip to the local banker more difficult than ever. Rest assured, that local banker and farm credit officer know full well the impact of tighter credit on their farmers and the local businesses that will be forced to try and survive on Main Street as a result of this tax and budget reduction combination.

Adding another tax burden on the shoulders of farm producers and related farm industries won't balance the budget -- it will only make a bad situation worse. Greater tax burdens -- particularly in the nature of an energy tax -- only rob from those hard-working men and women who spend their lives providing the food and fiber for the people of this nation.

Mr. EMERSON. And I concur in your opening remarks that we're here to listen today, more than talk.

Mr. PETERSON. Mr. Smith, do you have——

Mr. SMITH. With that kind of emphasis, Mr. Chairman, what do I have left? [Laughter.]

I'll offer my statement, and I will, as well, listen to the testimony. Thank you. [Laughter.]

[The prepared statement of Mr. Smith follows:]

STATEMENT OF
ROBERT F. SMITH
BEFORE THE
SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
APRIL 22, 1993

Mr. Chairman, I'd like to thank you for calling this hearing today. Since the last time we met to discuss the economic outlook for agriculture, much has occurred.

For instance, Congress has adopted a Budget Resolution which incorporates much of the Clinton approach for agriculture, though the numbers have changed somewhat.

I regret that the Administration has declined to provide witnesses who are, in the end, accountable for Clinton's agricultural policy. While the individuals testifying today are well-known and respected by all of us on the Agriculture Committee, it would be unfair to saddle their good reputations with the Clinton policy.

It is indeed unfortunate that those who make this proposal are not here to defend it. As I have stated before this Subcommittee previously, Clinton's proposal will cost a typical wheat farm an additional $8,000 to $12,000.

I believe that an Administration which can ask for such massive and disproportionate user fees, taxes and program cuts on our nation's farmers should at least show up to explain how that will serve the consumer and taxpayer. Maybe the answer is that its indefensible.

Also since our last meeting, the President conducted a summit with Russia's President Yeltsin. At the conclusion of this summit, Mr. Clinton promised the Russian people food assistance in the form of U.S. grain. Unfortunately, President Clinton's offer is a false promise.

The President chose to extend concessional sales and food donations to the Russian people. Sounds good in a press release, not too impressive in terms of follow through.

Since concessional sales and donations are subject to cargo preference requirements, a good intention faces formidable obstacles. Of the $700 million Clinton offered, at least $200 million would go for transportation on U.S. bottoms. Of course, that figure is a moving target because shipping rates are climbing rapidly in anticipation of Clinton's aid package, from around $65 per ton to a predicted high over $120 per ton.

Also, there's a $30 million cap on transportation costs which the Administration needs Congress to lift. This would cause the whole package to become subject to pay/go, at a score of $300 million. Naturally, this would come out of agriculture programs.

We could require the Russians to pay the freight, but why would they pay these sky-high costs when our competitors would gladly ship at competitive international rates? It is ridiculous to ask our farmers, the Russians, or the taxpayers to pay these grossly inflated rates. It will prove most difficult to move American grain under this proposal.

There is a simple way out of this mess. It's called GSM 102 & 103. Rather than give grain to the Russians we could sell it to them. Commercial sales can be concluded swiftly and efficiently. Politically, sales are more attractive to the Russian people than giveaways. Export credit guarantees are more attractive to our farmers as well, because vastly increases the chance the grain will actually be marketed.

Meanwhile, commodity prices continue to fall and Russians go without American grain.

And finally since the last time we met, the Secretary of Agriculture announced that corn farmers who experienced low-quality due to natural disasters in 1992 will be eligible for disaster assistance.

As you will recall, in past disaster programs and during consideration of the most recent disaster legislation the consensus was reached by Congress that determining losses based upon quality losses would be too subjective a process to form an equitable basis for benefit eligibility. While the Department was granted discretionary authority to make disaster payments on quality losses, it was understood that quality concerns represented a line we must not cross.

The typical Oregon wheat farmer I cited earlier suffered had neighbors who experience crop losses in 1992. Their benefits were calculated and they were paid on a pro rated scale, about 50 percent. They understood we had more disaster than money, and it was okay as long as all shared in the pro rated payments.

Now, we find that this left over money is available for the Secretary to disperse as he choose, a little here a little there. Well, my wheat farmer, though he had a complete crop, suffered sprout damage on 689 of his 1105 acres.

Late rains caused him to loose about a 28 cents a bushel at the elevator or $9,619. That does not include the $2,000 price penalty he had for low test weights.

I'd like to know two things today is this: 1) how do I explain to his neighbor that he's never going to see his 1992 pro rated benefits paid up and 2) when is the Secretary going to announce a quality loss program sign up for sprouted wheat?

So you can see, it has been an eventful month since we last met to discuss the economic conditions for American agriculture. During my years in Congress, I thought I'd become pretty good at explaining Washington's arcane policy process to Oregon's farmers and ranchers. But I have to confess that the last several weeks have left me truly speechless.

Mr. PETERSON. Without objection, Dr. Collins, it's all yours.

STATEMENT OF KEITH COLLINS, ACTING ASSISTANT SECRETARY, ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Mr. COLLINS. Thank you, Mr. Chairman, members of the subcommittee. I appreciate the opportunity to come here today and talk about the economic situation for agriculture and the administration's proposals for agriculture. I have a lengthy written testimony, which I'd like to submit for the record and cover a few of the major points in it.

Mr. PETERSON. Without objection, your prepared statement will appear in the record.

Mr. COLLINS. Mr. Johnson, in his invitation to the Department, requested this afternoon, that we cover three areas. One is the market outlook for the major program commodities. He also asked that we take a look backwards at the 1990 Farm and Budget Acts, and see what kind of savings we achieved from that legislation, and he asked that we then look at the administration's proposals and their economic effects.

I would like to say a few brief words about each of those areas, and start with the economic situation—that's important because it provides the backdrop against which the budget proposals may be evaluated.

Between 1990 and 1992, U.S. economic growth was a very meager six-tenths of 1 percent. That rate helped keep interest rates down, reduced inflation rates—that was to benefit the farmers, but it did not help demand growth. We now appear to be entering a period where inflation and interest rates will remain low and economic growth will improve, and that would be much more positive for farmers.

I should mention that recent farm interest rates have been at 30-year lows, and that interest expenses for farmers are now about $1 to $2 billion a year lower than they were just 2 or 3 years ago.

The administration's economic plan is an effort to generate long-term recovery as well as short-term recovery, which has slowed a little bit during the first quarter of 1993. If you turn to the global economy, it's been mixed. Our exports have been helped by strong growth in less-developed countries—that's helped offset weak growth in the developed countries.

United States exports for agricultural products will be about $42.5 billion this year—that would be the second highest ever, and despite the problems in the former Soviet Union, our grain exports have been fairly strong. Our share of world trade for wheat, corn, rice, and soybeans are all up. Only cotton is having a clearly disappointing export year.

As we look out toward 1993, that situation may reverse. Cotton exports could rise, while grain and oilseed exports could decline. We foresee bigger or better crops in Canada, Argentina, Australia, East Europe, and South Africa for grains, and that will likely reduce our export prospects.

We are also now expecting about a 2.5-million-ton increase in South American soybean production—in addition, a recovery in Canadian rapeseed production, and those two developments will cut into United States soybean exports. So with generally reduced ex-

port prospects in 1993–1994, the outcome for stocks and for prices is going to depend on what happens to U.S. production.

If we look at the recent Farm Planting Intentions Report and couple that with trend yields, we can say several things. We can say that as we look at the corn market, corn stocks and prices in the next season are probably not going to change very much at all from where they are this year. Wheat stocks are likely to rise, and wheat prices fall—perhaps, rather sharply. Rice and cotton stocks may rise slightly, and that will keep pressure on the prices of those commodities.

At this point, soybeans may be the exception, where stocks may decline some, and prices look a little stronger.

Overall, farm income in 1993 is expected to be similar to what it's been since 1990—essentially, moving sideways after the sharp recovery from the mid–1980's. If we look out over the budget resolution period—the 1994–1998 period—our baseline projects that farm income would rise about 5 to 10 percent over that period. That's not quite as fast as the rate of projected inflation. In the near term, our balance sheet statistics, debt to asset ratios, things like that—as well as farm financial vulnerability—all look about the same as they've been for the last couple of years.

With that, I'd like to turn to the second part of my comments, and that's to discuss the administration's proposals for agriculture and their economic effects. The proposals were released in detail, as you know, on April 8, as part of the stimulus, investment and deficit reduction package. I'd like to emphasize several points about it.

The first point is that the proposals affecting CCC outlays—the price and income support programs—called for spending reductions of $5.5 billion during the 1994–1998 period. $5.1 billion of that—93 percent—would occur in 1996 and later.

The second point is that two-thirds of the administration's proposed reductions come from one option, and that's an increase in the normal flex acres—the unpaid base acres.

The third point is that the congressional budget resolution is now realistically the operative target. Using the instructions to the authorizing committee, that target appears to be about $2.7 billion to be saved from CCC during 1994–1998.

The last point I'll make on this is that the effect on farmers of the proposed reduction—whether you look at the administration's proposal or your own congressional target—ought to be considered together with the other elements of the administration's package. And I'm going to do that in a moment and discuss principally, the Federal income tax proposals, which I think, on net, benefit farmers, and these positive benefits come sooner than the proposed cuts in farm program payments.

Now let me turn, just briefly, to the retrospective question that Mr. Johnson asked, and that's—what happened in the 1990 acts?

We've gone back and reestimated the savings from the 1990 proposals. You may remember back in late 1990, when the bipartisan budget summit specified a target for agricultural savings of over $13 billion. $11.2 billion of that was to be achieved in CCC outlay reductions over the 5 years from 1991–1995.

I can report to you that we're on track to achieve those savings. They were not smoke and mirrors, they're real—I think farmers know they're real. In fact, since spending is now running a little bit higher than we projected back in the summer and fall of 1990, the savings is expected to be a little bit higher. Instead of saving $11.2 billion over the 1991–1995 period, the 1990 acts look like they'll save about $12 billion over the 1991–1995 period.

The second thing that we've done is we've estimated the savings from the 1990 act provisions over this budget resolution period—1994–1998—and the savings from the 1990 act provisions will be about $15 billion in farm programs over the 1994–1998 period. That is about three times more than what the administration is proposing now, and over five times more than what the congressional resolution is calling for.

I'd like to make a couple of brief comments about the four major proposals of the administration. The first is the increase in normal flex acres. As you know, that was the workhorse in the 1990 savings package, and it's the workhorse in the administration's proposal, and I think for good reason—it's an effective and efficient way to reduce spending.

It's effective because the cost savings are real—they can't be circumvented; they can't be offset. It's efficient because it makes more acreage responsive to market prices. It gives producers an opportunity to plant higher-return alternative crops without losing base, and we know, from the record of the last couple of years, that farmers use such flexibility.

In 1992, about 8 million acres were flexed. Each 5 percentage point increase in normal flex acres reduces farm program spending by about $0.5 billion a year.

The second major proposal is to eliminate the 0/92 and 50/92 programs. That option reduces spending because it substitutes paid idle land for unpaid idle land.

In 1992, there was a little over 11 million acres in 0/92 and 50/92. I've gone back and looked at what acreage we forecast was going to be in 0/92 and 50/92 in the mid-1980's when these provisions came in, and the current acreage enrollment in 0/92 and 50/92 is two to three times greater than what we expected when this provision was first introduced. It's also two to three times greater than what was enrolled in 1986 and 1987. In effect, this provision has become a large paid-diversion program.

The third major proposal is to target program benefits to producers having less than $100,000 in off-farm income. That proposal generates savings without affecting those who depend on farming for a living. It would affect a very small percentage of farms.

It would require very careful thought on how income is defined and how the program would be administered. The major benefit is that it helps avoid payment reductions for full-time farmers.

The last point I would mention is the assessments that are proposed for nonprogram crops and dairy. These commodities do receive farm program benefits, and imposing assessments is consistent with the reductions proposed for the target price commodities.

I'd like to turn to the last major topic that Mr. Johnson asked me to address this morning, and that is the income effects of the budget proposals. We have looked at the income effects over the

1994–1998 period by assuming the congressional budget resolution—the $2.7 billion to be saved over that 5-year period—and combined it with the other proposals of the administration, such as the energy tax, and with changes in inflation rates and changes in interest rates.

The combination of higher production costs, primarily due to higher inflation and energy taxes in the proposal, and lower program payments reduces net farm income. Instead of rising the 5 to 10 percent over the 1994–1998 period, as I mentioned that our baseline projects, the package of proposals would flatten farm income out in the mid-to-later 1990's. The annual average reduction over the 1994–1998 period would be about $1.5 billion a year in U.S. net farm income.

Now we can look at that reduction and we can break it into its contributing factors. About one-third of the reduction in farm income is from the lower program payments to meet the $2.7 billion target, about one-third of the reduction comes from higher energy costs, and about one-third of the reduction comes from higher inflation and interest rates.

Clearly, the farms that potentially face the greatest stress are those that would produce mostly program crops, produce energy-intensive crops, such as cotton or rice, or irrigate and have low incomes to begin with—that is, that they're already vulnerable.

Now having put this farm income number on the table, and other people have similar estimates, I think to be perfectly balanced, I have to provide a little bit fuller explanation of exactly what we're looking at.

Net farm income is the number that economists usually look at because it's calculable. You can take receipts and you can subtract off costs, but farm income can be very misleading for gauging farm household well-being, and it can be very misleading for gauging the administration's proposals because it does not measure after-tax disposable income. It's more a measure of economic activity, and the administration has several proposals that will raise disposable income for farmers, and those increases will come sooner than the proposed spending cuts—they'll come in 1993, 1994, and 1995.

Particularly for small- and low-income farmers, the tax provisions have the potential to offset the program payment reductions and some of the higher production cost effects of the proposed energy tax, and I'd like to briefly give you three examples of the many proposals that are in the administration's tax package.

The first one is the permanent investment tax credit for small businesses. Virtually all farms would qualify for that, and it's retroactive to 1993.

As an example, if a producer were to buy a $50,000 tractor, the investment tax credit in 1994 would be $2,700, which is more than the increased energy costs for most of the example farms we hvae looked at. For agriculture as a whole, we can compute what we think is the potential reduction in tax liability for farmers, and it comes out to be about $750 million a year, due to increased purchases of depreciable assets that would qualify for the investment tax credit.

The second example I want to mention, and one that people often don't look at is the proposal to increase the earned income tax cred-

it, and that will be particularly helpful for low-income farms and rural households. The maximum credit for a household with two children rises to about $3,370 a year by 1995—that's about $1,900 a year above the current earned income tax credit for such a household.

Right now, we estimate about 200,000—and we get this data from tax records, public access files—farm sole-proprietors receive benefits from the earned income tax credit. Under the administration's proposal, we believe that number will go to about 500,000 farm sole-proprietors.

The third example I want to mention is the 25 percent deductibility for health insurance premiums. The IRS records indicate that about 400,000 farm sole-proprietors now deduct health insurance premiums. They take advantage of that provision, which expired last summer—and the President proposes extending that provision.

Mr. Chairman, in these brief remarks I tried to answer some of the many questions that Mr. Johnson sent to the Department—I think he had about eight different questions. Some of the others are answered in the testimony I've submitted for the record.

The effect of the budget cuts on agriculture, combined with the other administration proposals, is not clear-cut for all farm types and all farm sizes. Many farmers will face lower farm incomes, others will receive tax benefits.

I want to end by just making two final points. One, is that a stronger macroeconomic environment would ultimately lead to stronger rural economic growth, and I believe, to lower, long-term interest rates, which is not part of the administration forecast. I think both of those developments would be of benefit to American farmers.

The second point is that the effects I've outlined place a special emphasis, I think, on efforts to increase farm product demand in the mid-to-late 1990s to increase volume, and that requires an emphasis on international trade agreements.

Our analysis of the North America Free-Trade Agreement, and our analysis of the EC–Blair House–Uruguay Round agreement suggest that those agreements will raise exports and net farm income, and will do a lot to offset any of the projected income reductions for the larger, more energy-intensive farms that I've discussed this morning.

Thank you very much. That completes my remarks, Mr. Chairman.

[The prepared statement of Mr. Collins appears at the conclusion of the hearing.]

Mr. PETERSON. Thank you, Dr. Collins. We'll have some questions here.

This is going to reduce farm income how much—$1.5 billion? Is that what you said?

Mr. COLLINS. Net farm income has been running between $45 to $50 billion a year during the early 1990's. As we move out into the 1994–1998 period, we foresaw net farm income running in the $52, $53, and $54 billion a year range.

This package of proposals—meaning the administration's proposals—combined with the congressional budget resolution—$2.7 bil-

lion dollars to be saved in farm programs—would reduce—by our projection—net farm income an average of $1.5 billion a year over that period.

Mr. PETERSON. You were commenting about these tax provisions—is that included in that?

Mr. COLLINS. No, it's not. They are a mitigating circumstance. They would help to offset the income drop.

We do not have a good analytical capability to estimate after-tax household disposable income for farmers. What we measure is what most people measure, and that's the net farm income concept—gross receipts minus gross expenses—and it doesn't take account of tax liabilities, and there are proposed benefits for tax liabilities, and some of the examples we've looked at for farms show that they can be substantial, and that's why I pointed those out.

Mr. PETERSON. There are people who will argue that the investment credit—I mean, I've had people in my office arguing that that's not necessarily going to help people, and I think from my experience in preparing taxes, sometimes that got people in trouble in the past—although, for people that buy equipment and need to buy equipment, it helps out.

Mr. COLLINS. Well, certainly, that's a double-edge sword. One of the problems we saw in the 1970's was overinvestment in agriculture. Throughout most of the 1980's, we had net disinvestment in agriculture.

We have a smaller agricultural machine today because of the low returns to investment in the late 1980's, but as time marches on, people need to replace their equipment, and particularly, with an energy tax and a little bit higher energy costs, this might give them an incentive to buy more energy-efficient equipment.

Mr. PETERSON. We've been concerned up in our country about all the Canadian wheat coming across the border—and barley. We were wondering if you have any indication of what kind of impact all these Canadian wheat imports are having on the operation of the domestic wheat program. Do you have any way to measure that?

Mr. COLLINS. Well, yes. We could look at the effect of imports on domestic prices.

Mr. PETERSON. Have you looked at that?

Mr. COLLINS. I have not, but I would say that it's probably very small. We have, in the past, been importing in the range of 20, 30, and 35 million bushels of wheat. This year, it jumped to about 65 million bushels of wheat.

That 65 million bushels compares with the total production of about 2.5 billion bushels, so the import increase from the past year is fairly small, relative to the total production, but it certainly could reduce prices—particularly prices in the North Central States—by several cents per bushel.

Mr. PETERSON. We've seen some big increase—now, I guess, we're seeing it with barley as well. We've seen significant increases, and the folks up in my area have been concerned—the stocks are up somewhat in wheat and barley, and most of those stocks are being held.

As I understand it, in North and South Dakota, Montana, and Minnesota, we're holding 75 percent of the hold-over stocks, and

there's some concern that, with the new crop coming on—winter recrop particularly—that this is going to cause a price decrease, which is going to impact us a lot more than anybody else, because we're holding the stocks, and we're also the ones that see all this grain coming across the border every day.

They're going through my district, and Congressman Pomeroy's district by the truckloads. And it's pretty hard to convince people up our way, it isn't having some impact, especially if we see a big drop-off of prices—are we going to see a 50-cent drop in wheat prices?

Mr. COLLINS. I think we're going to see a substantial drop in wheat prices, so I think that the drop you see is going to largely mask what you might see because of the imports. A lot of the imports this past year have been coming in as feed wheat, which is not something we've seen in the past because of the Canadian's poor quality wheat crop, and I think that the points you raise about the higher stocks in the North Central States could certainly mean a little bit wider basis as wheat prices decline, and that could aggravate the wheat price decline in the North Central States. But the Wheat Belt, as a whole, is probably going to see a very substantial price deduction.

If you look at the futures market right now, the old crop/new crop spread is as high as it's been in a number of years. There is an impending 20- to 30-cent price drop just in the futures market spread right now. We haven't started to see that too much in cash market prices yet, but if the winter wheat crop comes on as large as it now appears, and spring wheat plantings are as high as farmers indicated in the Farm-Planting Intentions Report, then we're likely to see a couple of hundred million-bushel increase in wheat carryover stocks in the 1993 crop year, and that would be associated with a fairly substantial price decline.

Mr. PETERSON. This maybe isn't your area, but one more thing before I turn to Mr. Emerson—I've been calling over to the Department, trying to get a handle on whether they're trying to move some of this stock out to some of our potential export—as I understand it, there's some people that are maybe poised—do you know if they're trying to move some of this grain through the EEP program or the credit program this month—I mean, to us it's critical.

If it doesn't happen this month, it's not going to help us. If we're going to be sitting there with all this wheat, we're going to take the brunt of this hit.

Mr. COLLINS. I can't tell you about the day-to-day operation of the EEP, but it strikes me that we continue to announce EEP sales—we continue to have ample authorizations available. I know that we're working right now on our package for the upcoming year on EEP, which will be going through interagency committees shortly.

At this time of the year, with this kind of a price spread between old crop and new crop, sales are not just a function of how we run the EEP, but also a function of what customers want and what merchants want.

Recipient countries can look at the current old crop prices and look at the new crop prices, and see, by waiting another month or two, that they potentially can save 20 or 30 cents a bushel. In that

kind of environment, sometimes it's a little bit hard to move the old crop at the end of the season.

Mr. PETERSON. But if we got in there with more credits or more EEP, we could probably move it—I mean, that's been our point.

Mr. COLLINS. Right.

Mr. PETERSON. I hope that the Department will consider moving in that area, because I think it's going to hurt us otherwise.

My time is up. Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

Mr. Collins, your verbal statement here was largely in response to the letter that Mr. Johnson wrote to you, raising certain questions he wanted you to discuss.

I would appreciate it if we could, Mr. Chairman—if Mr. Johnson's letter appeared at the outset of this hearing record, so that they would line up there, and Dr. Collins' response would be addressing it.

Mr. PETERSON. Without objection, we'll place the letter in the record at the beginning of the hearing, after my opening statement.

Mr. EMERSON. Thank you.

Mr. Collins, regarding the proposed energy tax, what was the role of the Department of Agriculture—if Agriculture had a role in the proposal? What is the impact in rural areas?

Mr. COLLINS. Mr. Emerson, I don't think I have the knowledge to tell you, for certain, what the USDA's role was in the early origination of that proposal, but I think that as soon as it became public there was an interagency task force that was convened with one subject in mind, and that was to look at the effects on agriculture.

I was a member of that task force. It was chaired by the Office of Management and Budget, and that was long before the final proposals came out on April 8, so there was an opportunity for the Department of Agriculture to hear first hand from Treasury and other agencies around town—their thinking behind the proposal—and there was an opportunity for us to present to the other agencies, the effects of the tax proposal on agriculture, and at least raise the question of how it should be applied, how parts of it might be changed.

I might say that one part of our effort was focused on trying to exempt ethanol from the Btu tax, and I would say that we were successful in doing that, against, I might say, the desires of some of the other agencies that participated in that process.

Mr. EMERSON. If you were a part of the task force, what did you tell them the effects of the energy tax would be?

Mr. COLLINS. I told them, in a lot more detail, what I've summarized in this testimony. I think I've given a very straightforward assessment in this testimony—that is, that U.S. agriculture consumes about 2 percent of the energy in the Nation. That makes it slightly more energy-intensive than most industries, but it doesn't stand out as energy-intensive.

If you look at expenses on gas, diesel, lube, and electricity, farmers spend about $7.5 billion a year on those inputs. The energy tax, if you average all the different rates, would probably result in about a 7-percent increase in expenses for all forms of energy used by farmers, based on 1991 technologies—that is, the inputs that were used in 1991.

Direct fuel expenses would go up about $400 million annually, electricity expenses would go up about $100 million, and all the other inputs would go up, we estimate, roughly about $400 million, based on their energy content—their energy component. That's a total increase of about $900 million. It represents about seven-tenths of 1 percent of farmers' cash expenses in a year.

I told them that, I told them lots of other things.

Mr. EMERSON. Same question, but for the barge tax.

Mr. COLLINS. We also have an interagency task force to address the barge fuel tax—again, chaired by OMB. My office also has representation on that task force.

That one, perhaps, is a little more difficult to assess, because it's difficult—first of all, to know the total volume of agricultural commodities that travel on the inland waterway system, so we have focused primarily on the Mississippi River. About 23 percent of grain travels to one market or another on the inland waterway system.

This tax, as best we can estimate, would raise, on average, the cost of grain moving on the Mississippi between 6 and 7 cents a bushel. The question then becomes, what happens with that 6 or 7 cents?

We think some of it would get passed on. There have been studies that have looked at the earlier—back in the early 1980's when first implementing the barge tax. There have been studies that have looked at how much of that was passed on to consumers and how much was passed back to farmers. Earlier studies suggested about 70 percent of the barge fuel tax increases would get passed back to the farmers—we think that's a reasonable estimate—so there would be a reduction in farmers' returns.

It would be concentrated in three States. It would be concentrated in Iowa, Minnesota, and Illinois, and a reduction in farmgate prices that would be received by those who ship their grain on the Mississippi would translate into somewhat lower prices nationally for grains, but we think that that price reduction would be very modest. It would increase deficiency payments to some extent, but it would not offset the revenues collected from the barge tax.

Mr. EMERSON. Well, let me, at this point, if I may—I have some very specific questions that I want to pose to Dr. Collins that—I don't want to put him on the spot here today, because I think they'll take a little research—they're related to program cost reductions under the budget proposal. I have six questions which I would like to submit, and ask for an answer in writing to be sent to my office.

Mr. COLLINS. I'd be happy to do so.

Mr. EMERSON. Second, I have—we held some earlier hearings at which we had witnesses from the University of Missouri in Columbia, the center for national food and agricultural policy research, and they do a lot of analyses that I'm sure Dr. Collins knows, and they have now submitted a report on the implications for U.S. agriculture of the Clinton economic program, particularly as it relates

to the budget reduction, Btu tax increase, and the inland waterway users' fee, and, Mr. Chairman, I would ask unanimous consent to submit that also for the record.

Mr. PETERSON. Without objection, so ordered.

[The material follows:]

Budget Reduction and Economic Plan
Implications for U.S. Agriculture

Budget Reduction
BTU Tax Increase
Inland Waterway Users Fee

April 1993

Center for National Food and Agricultural Policy
Department of Agricultural Economics, University of Missouri, Columbia.

April 5, 1993

**Clinton Economic Package:
Implications for U.S. Agriculture**

Issues

- Majority of savings from ag policy changes come from several areas: increase normal flex rate from 15% to 25% and eliminate 0/92 and 50/92 programs, and increase assessments on non program crops, i.e., soybeans and dairy.

- Ag sector will be affected by other components of deficit reduction package such as BTU tax on energy and inland waterways user fee.

- Funding cuts will run beyond the life of the 1990 farm bill implying that 1995 farm bill legislation has already begun.

- First round funding cuts reflect national or aggregate budget targets and did not represent a cohesive plan for the agricultural sector.

- Expect several iterations on proposed legislation before a balance is achieved across all programs. Both the House and Senate have new targets set at around the $2.7 - $3.0 billion level. This is substantially less than the official CBO estimate of $4.9 billion.

Likely Implications

- <u>Program crops - reduced government support</u>

  ▲ Most severe impact is from the 10% flex area increase and increased ARP's to offset the return of 0/50/92 land to production. Lower participant net returns in crop sector of around:

    * $15 per acre for corn
    * $10 per acre for wheat
    * $18 per acre for cotton
    * $26 per acre for rice

  ▲ Estimated government cost savings due to increased flex and elimination of 0/50/92 programs total $3.0 billion over FY96-FY98.

April 5, 1993

Likely Implications (continued)

- ▲ Dairy producers opting to increase production over the previous year will pay a net assessment of 30 cents per hundred weight starting in 1996. This compares to a 15 cent assessment for over production under the current program.

- <u>Inland waterways user fee increase of $1.00/gal for fuel</u>

  - ▲ A differential between inland farm prices and gulf export prices expected to increase by 5.4 cents a bushel for wheat, 6.6 cents for soybeans, and 6.5 cents for corn.

  - ▲ Impact will be greatest on grain shipped to the gulf; but, average prices inland are also likely to fall for all crops--about 3 cents per bushel for corn, 5 cents for wheat and about 5 cents for soybeans.

  - ▲ Program is designed to generate $820 million in additional revenue over 1994-97 from waterway fees; however, since crop prices are expected to decline, the government will spend an additional $600-$650 million in deficiency payments over FY94-FY98.

- <u>BTU tax increase on energy</u>

  - ▲ Expected change in fuel and energy price is an 8% increase.

  - ▲ Increase in energy related categories of production expenses of $690 million in 1998.

  - ▲ Increased cost per acre in 1998:

corn	$3.58
soybeans	$0.84
wheat	$1.02
cotton	$5.01
rice	$5.82

- <u>Total Economic Package and Interest Rate</u>

  - ▲ Total package would reduce government spending by a total of $3.9 billion over FY 94-FY98. This excludes the additional $111 million generated by the grazing fee increase.

Likely Implications(continued)

- ▲ Under the total package, net farm income declines from baseline levels from $1.7 to $2.2 billion in 1997 and 1998, respectively. Over the 1994-98 period, net farm income averages approximately $940 million lower than the baseline. If economic conditions projected by Wharton do not occur, then net farm income could be down an additional $1 billion per year.

- ▲ If this budget reduction package results in stimulated economic growth and lower interest rates, agriculture would benefit directly. An approximate 1 1/2% interest rate decline increases cow/calf returns on average $3.95 per cow.

Comments

- Program budget cuts at the $3.9 billion level reflect a farm program with a very low government profile, the lowest since the mid 1930s. Program management would very likely shift entirely away from commodity specific support. Income enhancement strategies would be more likely with provision for environmentally friendly production.

- Lower government profile will mean much more erratic prices with greater potential for food price increases.

- First round of budget provisions at counter purposes.

  - ▲ Inland waterways tax a likely loser for the crop farmer and will only add marginally to government savings. Livestock farmers may benefit from lower grain prices.

  - ▲ 10% increased flex area carries less incentives for program participation, complicating the environmental thrust.

  - ▲ Elimination of 0/92 and 50/92 programs, without offsetting increase in ARPs, is likely to increase program cost, eliminate long term conservation options as contracts expire, and reduce the likelihood of cost efficiency in the production of minor oil seeds.

- Will require careful attention to government stock programs for food security and special provisions for environmental and conservation objectives plus specific programs for rural areas.

- Likely marks the beginning of the end to traditional farm programs that were initiated in the mid 1930s.

April 5, 1993

Comments (continued)

- Severe implications for specific regions of the country, with the hardest impact on monoculture regions--leading candidate will be wheat growing regions.

- Reductions in government spending will lead to losses in net farm income. Government savings in the range of $3.9 billion with net farm income losses totaling $4.7 billion over 1994-1998 period.

- Longer term positive gains likely if deficit reduction stimulates economic growth and lowers interest rates. For example, a 1.5% decline in interest rates would add an additional $1.1 billion to net farm income.

Mr. PETERSON. One point—I thought that the Clinton administration had backed-off on the barge tax, do you know?

Mr. COLLINS. Not to my knowledge. This testimony was cleared yesterday by OMB, and they tell me that it's still in the package.

I asked that question myself. I have not received the full administration package.

Mr. PETERSON. I thought they had told the Senate that they were going to consider reducing the——

Mr. COLLINS. I know, the President has been asked publicly about it and said that he would look at it, and there's certainly this ongoing effort to look at it within the administration, I can only tell you that it was still in the package as it was presented on April 8.

Mr. PETERSON. It's still in the package at this point.

Mr. COLLINS. Yes, sir.

Mr. PETERSON. OK.

We're going to recognize people as they arrived. I believe, Mr. Barlow was the next member who arrived.

Mr. BARLOW. Thank you, Mr. Chairman.

Just one question—I notice in your testimony, you say that there's a possibility that when the energy taxes go through, there's a reduction in demand for energy overall in the United States, and that this might translate into lower fuel prices, and that this might help offset the costs of the Btu and other energy taxes, is that right?

Mr. COLLINS. Yes, sir. I would say that there are two factors that would suggest that that $900 million figure I quoted earlier on the increase in energy cost is probably an overestimate for the 1994–1998 period.

One, is simply the good record that farmers have in conserving energy. If you go back and look at their record since the high energy increases in the 1970's, gasoline consumption has gone way down, diesel consumption has been flat, natural gas consumption has gone down, LP gas consumption has gone down, electricity consumption has been flat. That's a pretty good energy conservation record.

If higher energy prices lead to more energy conservation nationally, then I think you would expect a reduction in demand for oil and oil-based fuels, and that would reduce the price of oil marginally, and that would mean lower feed stock costs. Where that would show up principally for farmers would be that it would offset the tax costs in fertilizer and pesticide production, for example.

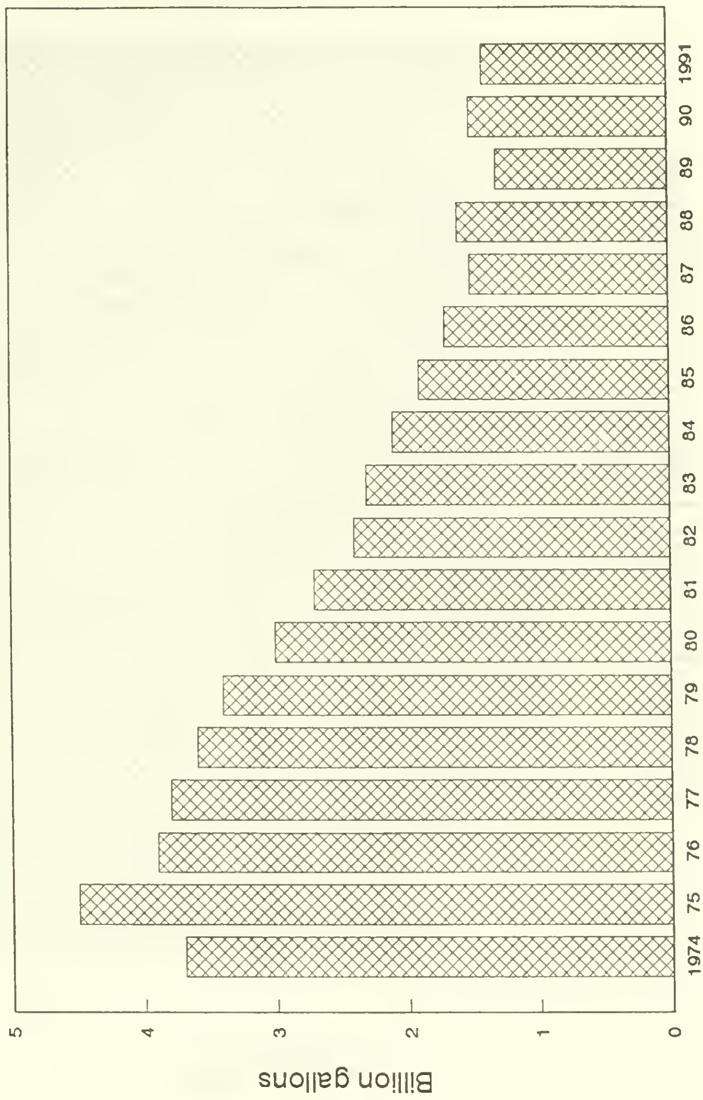
Mr. BARLOW. Could you submit those charts for the record, that show as energy costs have gone up over the last 30 years, farmers have reduced their use and made more efficient use of energy, so that the net farm costs have not risen as energy costs have gone up?

Mr. COLLINS. I'd be happy to.

[The material follows:]

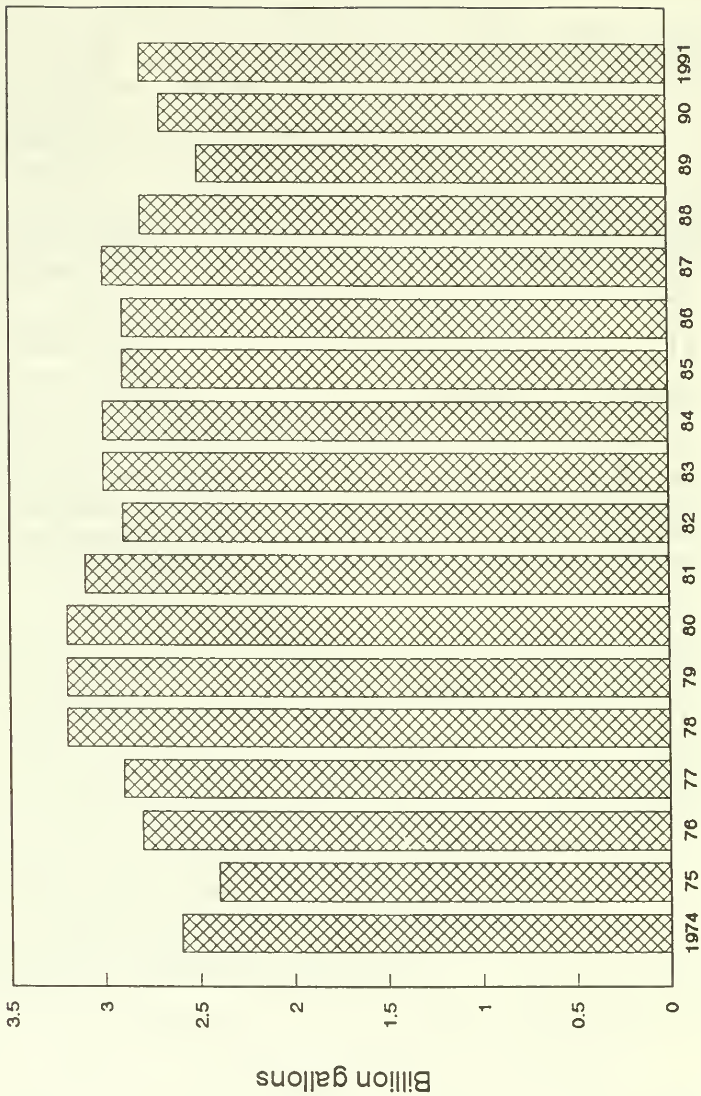
Gasoline Use on Farms

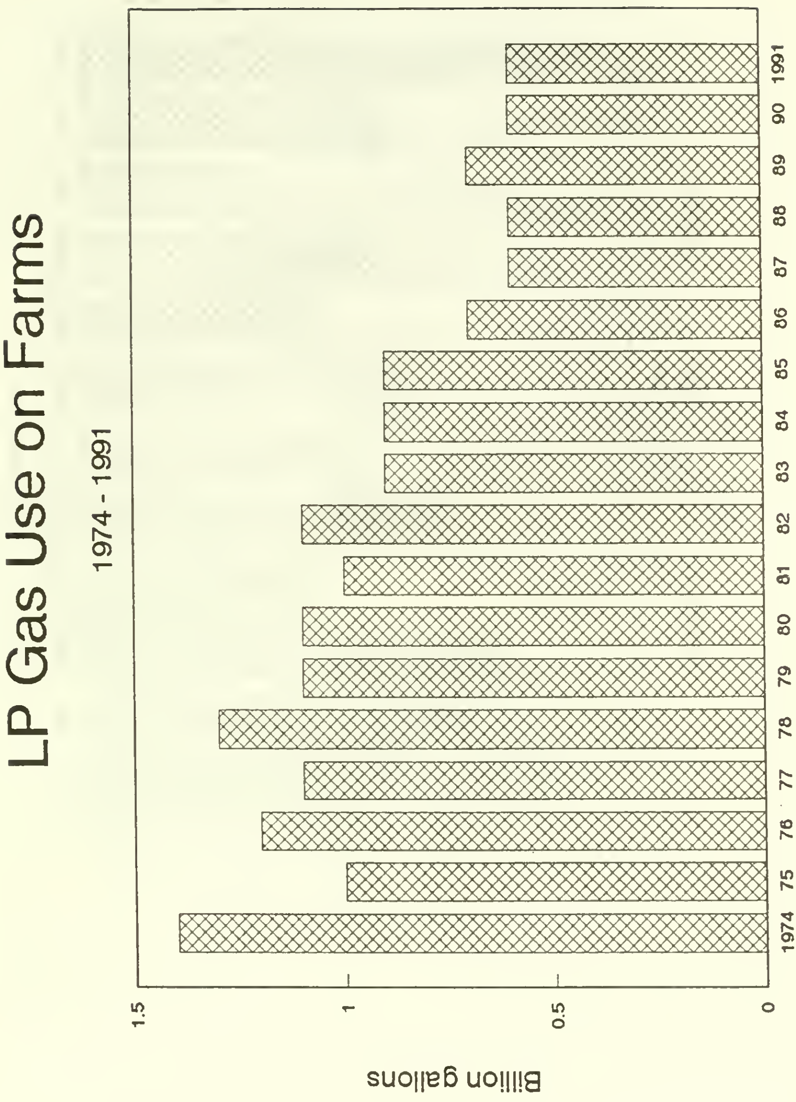
1974 - 1991

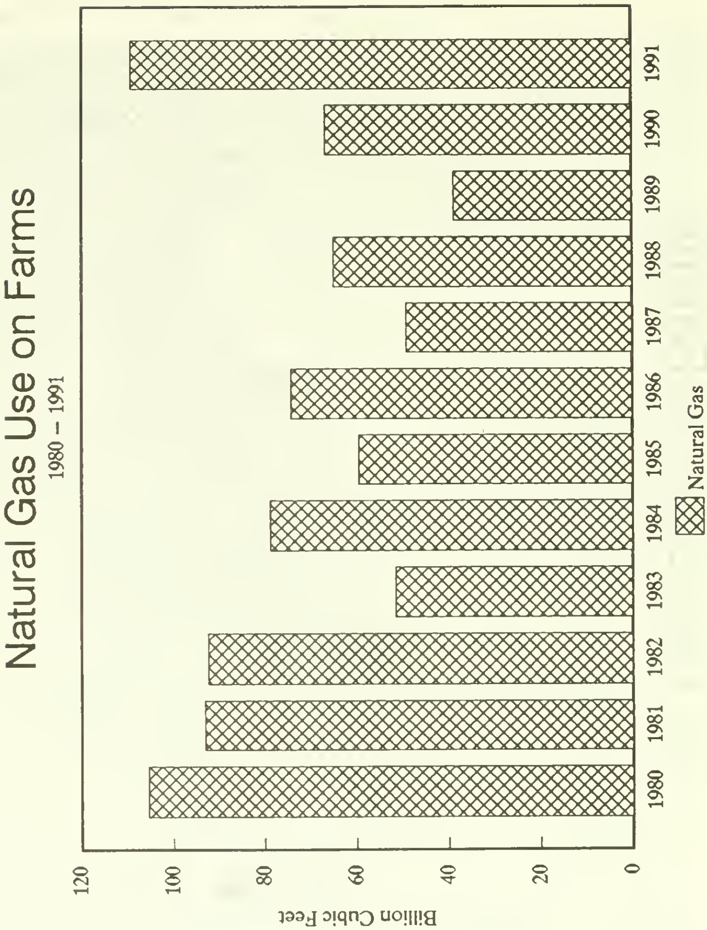


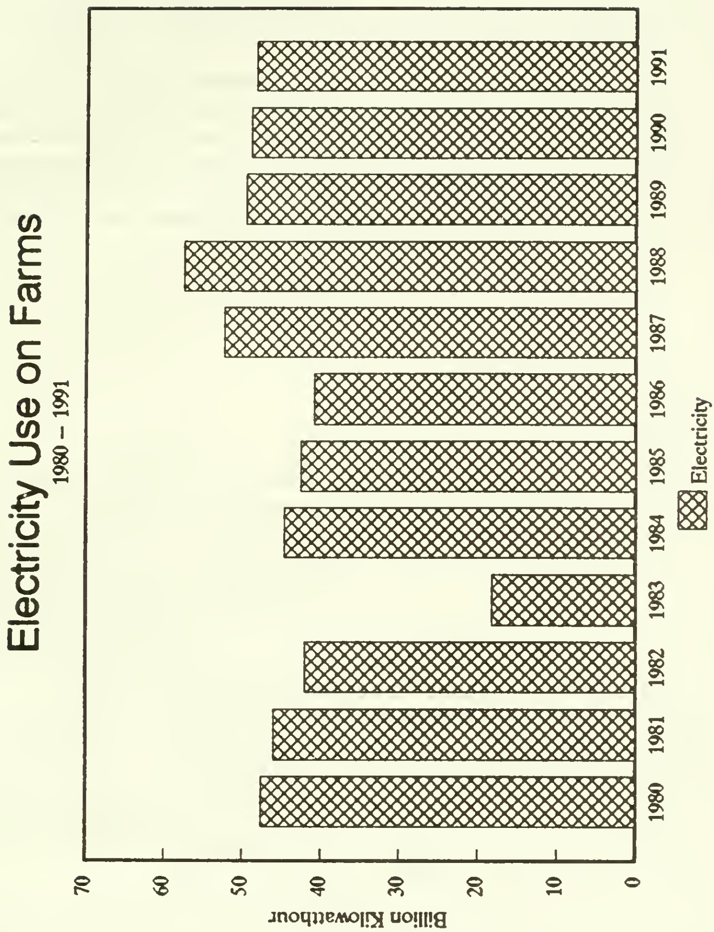
Diesel Fuel Use on Farms

1974 - 1991




LP Gas Use on Farms
1974 - 1991
Billion gallons
1.5
1
0.5
0
1974
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
1991


Natural Gas Use on Farms
1980 – 1991
Billion Cubic Feet
0
20
40
60
80
100
120
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
Natural Gas


Electricity Use on Farms
1980 – 1991
Billion Kilowatthour
0
10
20
30
40
50
60
70
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
Electricity

Mr. BARLOW. Just one other question, and that is, has there been any agreement made with the fertilizer industry on the Btu tax and how the Btu tax works through in the area of fertilizer manufacture, do you know?

Mr. COLLINS. Well, specifically how it will be levied, I don't know. It's clearly a problem. The fertilizer industry buys a lot of energy, part of which they use as process energy, part of which they use as feed stock. The feed stock is exempt from the administration's proposed Btu tax. The process energy would not be exempt. Exactly how the bookkeeping will be conducted to figure that out with the fertilizer industry, I just don't know.

Mr. BARLOW. So the discussions with the fertilizer industry are ongoing at this point.

Mr. COLLINS. As far as I know.

Mr. BARLOW. Thank you.

Thank you, Mr. Chairman.

Mr. PETERSON. Thank you.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Dr. Collins, I want to take you through a little scenario here first, and then ask you some specific questions about it.

You're, of course, very familiar with the drought disaster relief program. You may be familiar with the fact that there was some $300 to $400 million left over from last fall's distribution of that program. At that time, people who filed and had losses of over 40 percent, if they had no crop insurance, or 35 percent, if they had crop insurance, were paid about 50 percent of their losses, anticipating, of course, that there would be another distribution.

Since that time, the Secretary has announced a program to use the $300 to $400 million—it was to be directed to Michigan, but couldn't be for corn only—but is now directed to corn only, on the basis of loss of quality, not disaster relief. That is the first time in the history, that we can determine, of the Department of Agriculture, that there has ever been an attempt to distribute disaster relief money on the basis of the quality of a crop.

Obviously, this is a very subjective analysis. Beyond the fact that those who had disasters—and were not even paid more than 50 percent—are waiting for the distribution, it appears as though we are now on a new philosophy of assisting people who have lost quality in their crop, only in corn. I don't have to mention that we have loss of quality in cotton, loss of quality in wheat, loss of quality in fruit, and loss of quality in soybeans across this country.

The measure is so subjective as to raise the question with me—first of all, did you have a hand in making that decision?

Mr. COLLINS. No, sir. I did not make that decision. That was the——

Mr. BARLOW. Then I'm not going to pick on you, but I'm going to ask you a question. Relative to the whole disaster program that has been in place in this country for the last— at least, 20 years—if we go, in your judgment, to a quality analysis of loss, what happens to the disaster relief program that has been historically used by this Congress and by the Department of Agriculture?

Mr. COLLINS. I would certainly say that the move toward providing assistance to corn producers because of their moisture and

quality problems is not something that we've done—at least, not in my memory. As far as how it would affect the program in the future if it were extended to all commodities and all regions, it would certainly increase the budget exposure of the current disaster assistance program, perhaps quite sharply.

To maintain the current kinds of outlays that we've had under disaster assistance, you would probably have to change some of the provisions of the program. You'd either have to change the loss thresholds, or you'd have to change the payment rates. You would have to have some offsetting factor, if you wanted to try and keep outlays on a scale of where they've been in past disaster assistance programs.

I really don't know how precedential this decision will be for the future. The Secretary has indicated repeatedly that he will look at these kinds of things on a case-by-case basis.

In this particular instance, the disaster was fairly widespread. It covered, not just Michigan, but particularly Wisconsin, where there are a lot of problems, and I think he was quite concerned with wanting to provide assistance to those producers who, as it were turning out, were having tremendous problem crops——

Mr. BARLOW. Oh, Dr. Collins, I share his concern. We all do. The point remains, we have sprouted wheat in the Northwest, cotton has trouble, beans have trouble.

This does not just go to program crops, as you know. This is on a producer level——

Mr. COLLINS. Right.

Mr. BARLOW. Direct arrangement with the Department of Agriculture, and if—it seems to me, if we're going to spread the idea of supporting quality of a commodity, we have decimated the whole disaster relief program when we only paid them 50 percent on the dollar of what we promised them under the disaster relief program. It's gone—there's no money left.

Mr. COLLINS. That is correct. There probably remains between $200 to $300 million of a total appropriation that exceeded $2 billion.

Mr. BARLOW. Thank you.

Mr. PETERSON. The committee, as I understand it, is planning on having a briefing next week on the disaster assistance status, and ASCS, FmHA, and FCIC are going to be here, so we'll have a chance to ask them some questions.

Let's see, I think Mr. Pomeroy was here next.

Mr. POMEROY. Thank you, Mr. Chairman.

Dr. Collins, you do talk about the mitigating—or you talk about the relationship between eliminating the set-aside programs—0/92 and 50/92—and its resulting impact of increasing production and decreasing prices and increasing then, deficiency payments. Does the Secretary have measures at his disposal to mitigate increased outlays from this phenomenon?

Mr. COLLINS. The primary measure—the primary program instrument would be the acreage reduction program. As we have analyzed this and scored this as a budget savings, it's a savings because it results in increases in the size of acreage reduction programs.

68-362 O - 93 - 12

Mr. POMEROY. In other words, those programs are more expensive than deficiency payments?

Mr. COLLINS. If you eliminate 0/92 and 50/92, more land comes back into production—not all of the land that's in 0/92 and 50/92, some producers receive the payment and would idle the land anyway, but we're estimating that one-half to 60 percent of it would come back into production.

That, in and of itself, would increase budget outlays. It would mean more production, lower prices, and higher deficiency payments. As a result of that, the only way to achieve a savings is to neutralize that production effect, and you could do so by increasing the size of the acreagc reduction programs.

In a sense, the bottom line of that would be that the land idled under the acreage reduction program, which we call the Acreage Conservation Reserve Acreage, would increase—that's unpaid idle land—and the paid idle land, the 0/92 land, would decrease.

Mr. POMEROY. And the Secretary has discretionary authority to affect that?

Mr. COLLINS. He has authority to increase the acreage reduction programs within limits. Depending on the commodity, there are statutory maximums and there are stock triggers for certain program ranges.

Mr. POMEROY. The reductions or the changes in the crop insurance program to achieve budget reductions are not mentioned in your testimony. Is that because they don't become implemented until fiscal year 1995?

Mr. COLLINS. No, sir. The proposals are in the President's package. In fact, they reflect savings in the fiscal year 1994–1998 period of about $1.7 billion for the Federal Crop Insurance Corporation.

They're not in my testimony because I thought my letter of invitation suggested that I focus on farm programs—Commodity Credit Corporation outlays. That continues—the crop insurance reform continues to be a proposal of the administration.

Mr. POMEROY. Basically, the crop insurance reform moves the loss measurement to an area yield evaluation. Do you believe that this—I mean, some would feel, and I'd be inclined to agree with them—it really guts the risk management support of obtaining Federal Crop Insurance in the first place.

Mr. COLLINS. This is certainly an issue worth intellectualizing over for some time. It's a proposal that has pros and cons.

I think, from the point of view of an individual producer, who has a yield history that correlates well with the area history, I don't think that there would be that much of an impact on the risk management behavior of the producer. I think that's where area loss insurance is best applied—where lots of producers have correlations that go along closely with the area yield.

I think that the risk management behavior of the producer is certainly one criterion that you would look at in evaluating crop insurance. I think that there are other behaviors of producers that you should look at also. The ones we talk about often, with regard to the current Federal Crop Insurance Corporation, are adverse selection and moral hazard—the adverse selection being producers' behavior to essentially take advantage of an insurance premium that doesn't reflect the true actuarial risk that's involved, and the moral

hazard—since that individual loss crop insurance is individually based—the behavior of the producer can affect the payment.

Both of those problems are reduced, we think, quite a bit under an area loss proposal, so that's one of the attractions of an area loss. One of the down sides can be, as you mentioned—the fact that it is not tailored to the individual, and that's normally the way most people think about insurance. They think about it as compensating their own individual loss, and that's not something that, dollar-for-dollar, area loss insurance would do.

Mr. POMEROY. I have additional questions, Mr. Chairman. I'll wait until——

Mr. PETERSON. We'll have another round.

Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

In your verbal testimony, you talked about vulnerability to bankruptcy, Mr. Collins. I noticed in the written testimony, you talk about recent estimates showing less than 5 percent of farms are now vulnerable—how recent were these estimates, do you know?

Mr. COLLINS. Yes, sir. That measure of vulnerability is one that the Department of Agriculture has used since 1984. Let me just define the measure. It's farms that have debt to asset ratios above 40 percent, and have net farm incomes that are zero or negative. It doesn't take account of their off-farm income.

We do have measures where we look at household income, and, in fact, surprisingly, the vulnerability rates are quite similar, whether you use net farm income or household income.

We do an annual survey. We survey between 20,000 and 25,000 farmers every January and February to get that data. The vulnerability rates that I quote are the results of the survey that was taken in January and February of 1992, so it would, in effect, be the status of farmers at the end of 1991.

Mr. BARRETT. So the proposed cuts—then the administration's proposed cuts would not be reflected in these numbers.

Mr. COLLINS. No. Those are actual factual numbers based on financial history of the last couple of years.

Mr. BARRETT. And you'll be taking new estimates then, again next year.

Mr. COLLINS. We are just finishing up our surveys this year. We do it every year, and we will be doing it every year.

Mr. BARRETT. Well, these seem just a little bit conservative to me. A lot of the people that I talk to would feel that these probably might be a little low.

I know, in my State alone, we've lost 10,000 farms in the last 10 years. It's a small State, but——

Mr. COLLINS. Yes, sir. Well, with 2.1 million farms and with 5 percent being vulnerable, that would be over 100,000 farms right there.

In addition to that, you may note that in the written testimony, I mention the concept that we call marginal income farms—those are farms that don't have a debt to asset problem, but have very low or negative incomes—and that number is also fairly substantial—it's 17 percent for commercial-sized operations—so some of those farms that you may think of as vulnerable, statistically probably fall into that class that we call marginal income, but there is

no doubt that there are a lot of farms in that class that are having financial difficulties.

Mr. BARRETT. Jumping to means testing then, which you, again, talk about in your testimony, how many individuals—have you any idea—would be affected?

Mr. COLLINS. Yes, sir. I have looked at IRS tax records for 1988 and 1989—1989 would be the year that I have the most recent data for—and in 1989, there were about 2.4 million filers of schedule F returns. Out of that 2.4 million, there were about 1.5 percent, by our estimate, that had off-farm income in excess of $100,000.

Now that's a little bit rough—it's a little bit rough because no one has defined off-farm income yet—we have not defined it. We have not submitted statutory language proposals on what off-farm income is, or what farm income is, so we had to basically take the adjusted gross income, subtract off the schedule F farm profit or loss, and use that as our measure of off-farm income, but I think it's safe to say that no matter what definition we ultimately come up with, the percentage of farm sole-proprietors that have off-farm income above $100,000 a year is going to be very, very small.

Mr. BARRETT. Would you care to make a comment about those who were saying that this is going to force landlords from crop-sharing to cash rent?

Mr. COLLINS. I think that's an accurate prediction. I think that share-rent landlords will by-and-large, unless they are asleep, figure out how to continue to receive the benefits of the farm program. They'll probably do it, shifting to a cash-rental arrangement, and in that case, the payments that formerly went to the landlord, would go to the producer that's renting the land.

Mr. BARRETT. My time is up, Mr. Chairman.

If I might just pick up very quickly on the comment Mr. Pomeroy made about your not including crop insurance in your testimony—or perhaps we can pick up on the second round, Mr. Chairman—but I was made privy to some charts this morning from a group from Omaha that was in town—I had breakfast with them—and how some of the larger areas might be adversely affected by this proposal, and I'd like to submit several charts for the record.

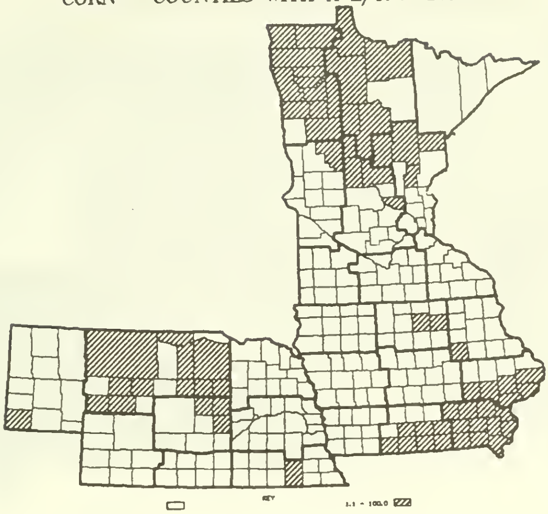
Mr. PETERSON. Without objection.

Mr. BARRETT. Thank you.

Mr. PETERSON. We'll accept those. Thank you.

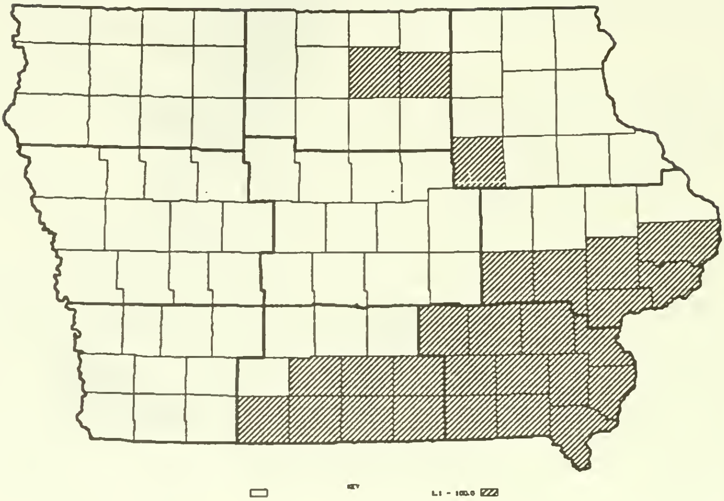
[The material follows:]

CORN - COUNTIES WITH A L/R > 1.10



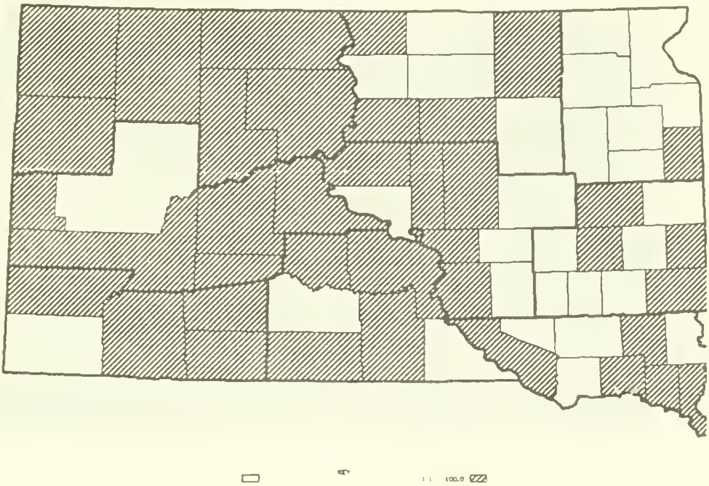
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

IOWA CORN – COUNTIES WITH A L/R > 1.10



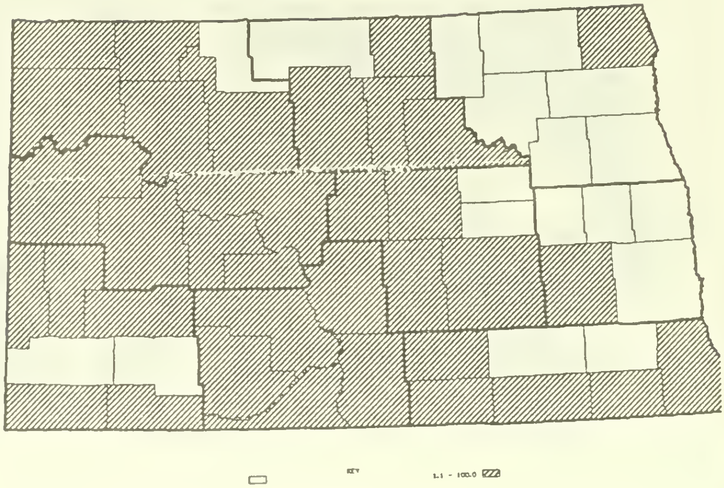
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

SOUTH DAKOTA WHEAT - COUNTIES WITH A L/R > 1.10



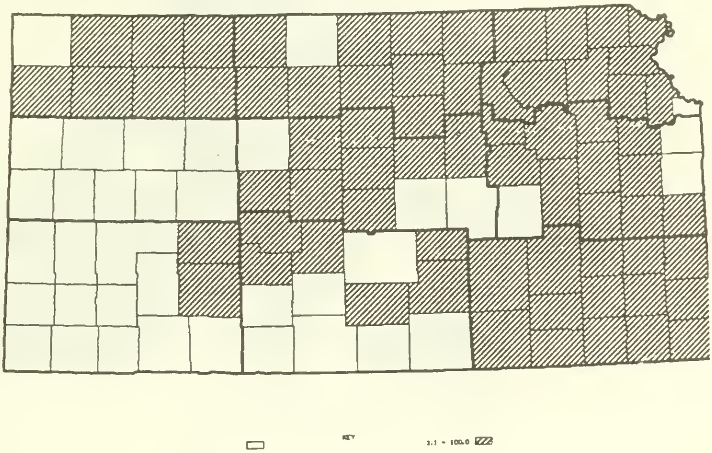
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

NORTH DAKOTA WHEAT – COUNTIES WITH A L/R > 1.10



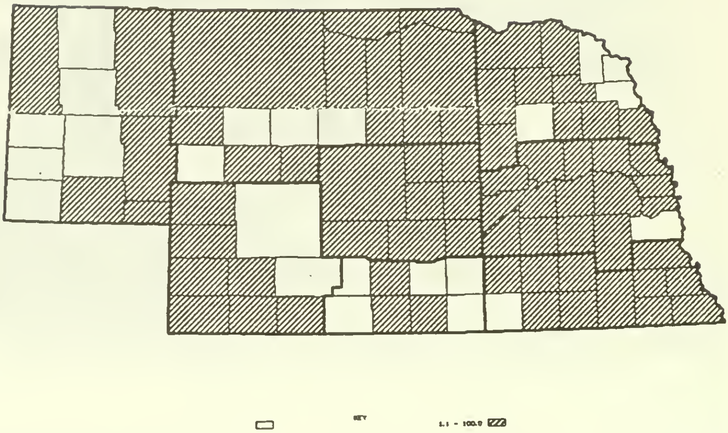
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

KANSAS WHEAT - COUNTIES WITH A L/R > 1.10



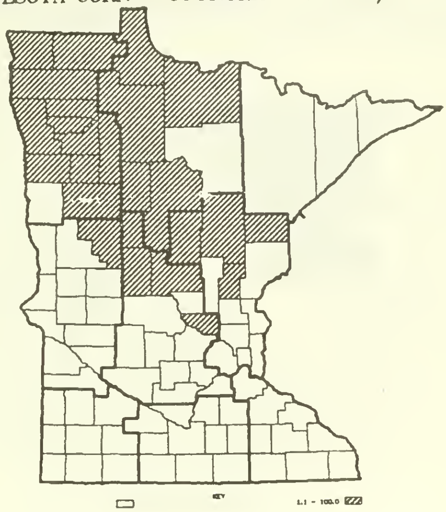
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

NEBRASKA WHEAT - COUNTIES WITH A L/R > 1.10



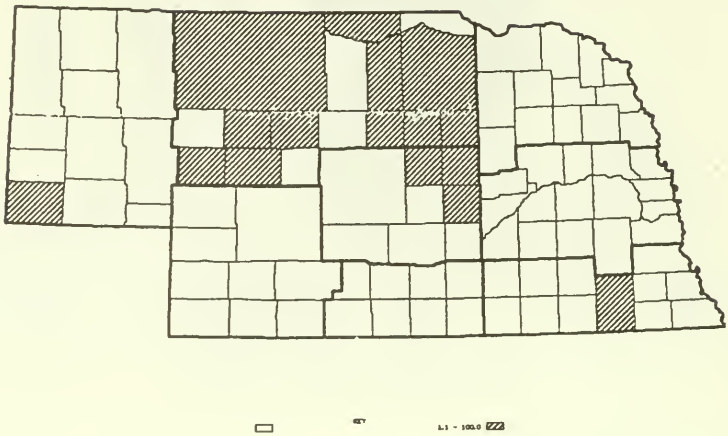
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

MINNESOTA CORN – COUNTIES WITH A L/R > 1.10



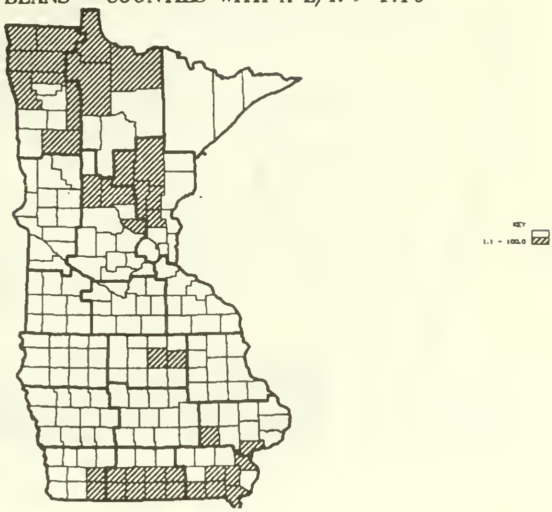
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

NEBRASKA CORN - COUNTIES WITH A L/R > 1.10



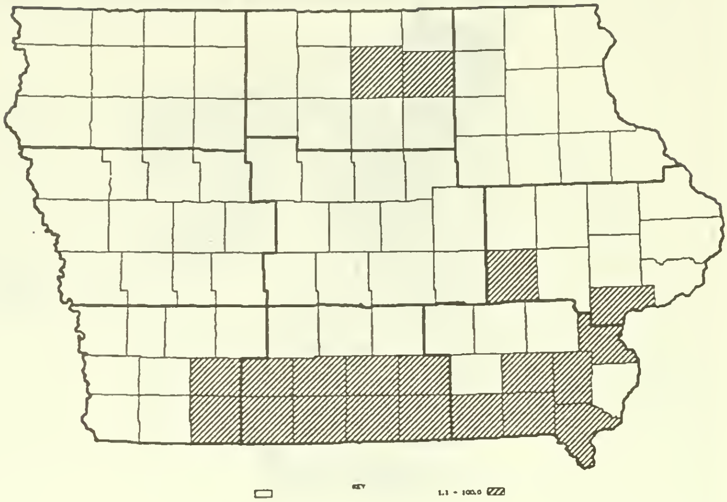
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

SOYBEANS - COUNTIES WITH A L/R > 1.10



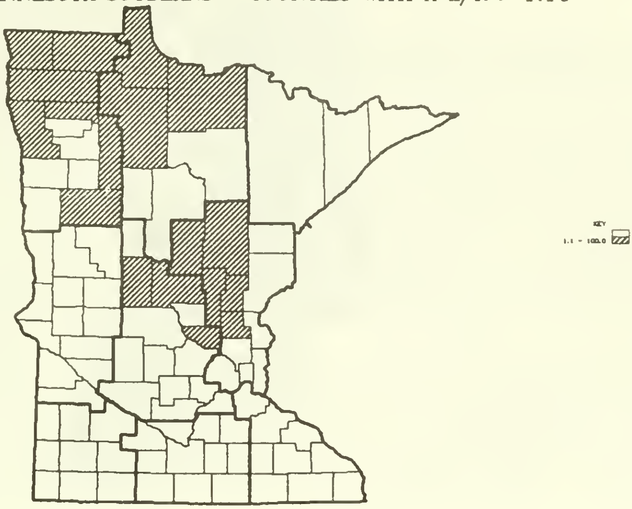
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

IOWA SOYBEANS - COUNTIES WITH A L/R > 1.10



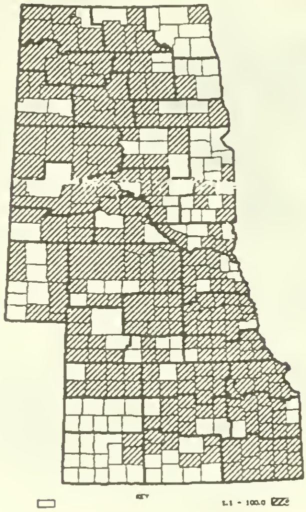
Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

MINNESOTA SOYBEANS – COUNTIES WITH A L/R > 1.10



Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

WHEAT – COUNTIES WITH A L/R > 1.10



Prepared by National Crop Insurance Services
Data Source: FCIC (1992 data current as of 12/04/92, 1992 Reinsurance data current as of 12/18/92)

Mr. PETERSON. Ms. Long, do you have any questions?

Ms. LONG. No questions.

Mr. PETERSON. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman.

Dr. Collins, I, too, want to welcome you to this committee, again, and give our regards to the Secretary. We miss him here, but we think he's doing a good job.

I have a few questions on your written testimony. You say in here, U.S. agriculture is expected to continue benefiting from growth and international markets for the next several years.

The numbers you use show where in 1992–1993—we had about $42.5 billion, a slight increase from $42.3 billion. In my opinion, this is a very small increase, and I'd like to get your opinion regarding the status of where we are with GATT—is it a stalemate—the NAFTA—what do you envision will be the future of expanding our markets internationally?

Mr. COLLINS. I think that as we've looked at the last half dozen years or so, we've seen a very substantial export increase, moving toward 1990. Since 1990, we've gone up a little, but not very much—as you point out. Our current projection—although, it's the second highest export level ever—is only slightly above the previous year.

I think that as we look out over the next several years, we would expect some pick-up in those exports. Part of the reason that we haven't seen more of a bounce, I think, in the past couple of years is the world economy, and the 1990–1992 period has been growing very slowly.

Even the less-developed countries that I mentioned earlier, who might grow at 5 to 6 percent this year, just a year ago were at 4 percent, so I think that as the United States economy improves, as Western Europe, which is—this year, I think the EC is predicted to have a gross domestic product growth of about zero percent—I think as they recover, as Japan recovers, as the Pacific Rim countries follow Japan up, and as the U.S. economy recovers, I think there's an opportunity to expand our exports. I think we'll see those kinds of trends.

We've had 8 straight years of increases in high-value products——

Mr. SARPALIUS. Yes, certainly.

Mr. COLLINS. I think we'll see high-value products continue to increase. I think the growth there would be greater than the growth in bulk commodities.

I think that we do have to look at the former Soviet Union and expect that that's not going to be the same kind of market in future years that it's been in the past, and that's primarily a bulk market, so that's going to be a little bit of a problem.

By and large, I would continue to think, though, that we will see export growth, and I think it will very much depend on the rate of growth of the world economy.

And you mentioned the trade agreements—as you know, at least, the EC-Blair House agreement, which did impose some fairly-rigid export subsidy disciplines, could potentially be a real shot in the arm for bulk commodities. That proposal, at the end of 6 years, would reduce—take for example, subsidized wheat exports from the

European Community—it would reduce their subsidized wheat exports by about 8 million tons.

The negotiations are a stalemate, but the President has indicated that he's going to pursue fast-track and—with a goal of a completion of an agreement by December 15, 1993, so I have some optimism about that also.

Mr. SARPALIUS. I want to ask a little bit about cotton. You indicate in one part of your testimony that domestic use is kind of at a standstill, and you project that domestic use will likely grow and exports increase as economic improvements in Eastern Europe and production problems in China continue. What do you think is going to cause an increase in domestic use of cotton in this country?

Mr. COLLINS. I hope I didn't say that domestic use is stagnant, or imply that it's flat in this country—it's doing extremely well in this country. This year, domestic cotton is the highest it's been since the 1950's. Certainly, on the world scale, cotton use has been flat, and I think, again, that reflects the global economy that's been slow growing over the last several years.

I think, with regard to total use of U.S. cotton next year, we've had a very poor export year this year, and I think there are some prospects for an improvement. I mentioned, specifically, Eastern Europe and the former Soviet Union because I think those have been big factors over the past couple of years in the world cotton market.

Eastern Europe, before their economic chaos, was consuming 4.5-or-so million bales of cotton a year. When their economic troubles began, that was cut in half.

The former Soviet Union was a consumer of over 9 million bales of cotton. This year, they'll probably consume 6.5 to 7 million bales of cotton, so there's been quite a drop in cotton consumption in those regions.

The result of that, in the former Soviet Union, has been, as you know, the exports of the Central Asian Republics, which are now, this year, about 4.5 million bales, which is up from about 3.7 million last year, so that has been a big factor in the winding down of U.S. cotton exports.

I don't know where that's going to go over the next several years, but if the Russian economy, which is a big consumer of cotton—not a producer, but a consumer—if the Russian economy can begin to pick up over the next several years, then perhaps we'll see some of that cotton that comes from Uzbekistan and the other Republics directed in that direction, and not on to the world market.

Mr. SARPALIUS. My time, too, is running out, but I would just like to close by expressing my concern and commend the Secretary for looking at disaster assistance for damaged corn. We also had a tremendous amount of cotton that was damaged, particularly in my area.

My district has more cotton acreage than any other congressional district. A lot of heavy rains led to a lot of damaged cotton, and I would hope that you would look at that very, very closely.

Mr. COLLINS. Yes, sir. I think that Mr. Espy is getting a lot of information about damage on many crops.

Mr. SARPALIUS. Sure.

Mr. PETERSON. Thank you, Mr. Sarpalius.

Mr. Condit, now that you have the USDA reorganized and operating like a well-oiled machine—[laughter].

Do you have any questions?

Mr. CONDIT. Thank you, Mr. Chairman.

I'd like to talk a little bit—or see if I can get you to talk a little bit about means testing. There have been cost savings associated with the so called, means test, and they varied. The administration's original estimate was around $610 million, and the CBO estimate was quite a bit lower.

Does the USDA believe that proposed means tests would achieve significant savings in proportion to the administrative burden it would add to the USDA and farmers?

Mr. COLLINS. I would say that's what the administration believes, yes.

Mr. CONDIT. Is it accurate to assume that the means test would significantly alter landlord/tenant relationships by providing an incentive for landlords to shift from crop-share to cash-lease—shifting the risk to the tenant? Does the USDA have any statistics or numbers on crop-share leases which might be affected?

Mr. COLLINS. Your first question is, would such shifting occur? The answer is yes, that shifting would occur. I would expect it to be fairly pervasive among share-rent landlords.

We have some data. I think, if my recollection is right, there are over 1 million farm landlords in America. I don't know how many of those receive farm program payments.

We may not have the data on how many of those receive payments, but I would expect that a lot of them would engage in alternative rental arrangements to continue to receive the benefits of the farm programs.

Mr. CONDIT. So then you—the next question would be—you don't know the number of farmers who would not qualify for production financing, or whether they would be denied program benefits—you have no idea under such a program?

Mr. COLLINS. That is correct. We have had to make rough estimates of what we might call slippage—circumvention, reorganizations, restructurings, and so on.

Mr. CONDIT. Would it be the intention of the USDA to administer the means test in such a manner that the producer would be denied benefits in the year in which he or she exceeded the earnings test? If so, would this result in a denial of benefits after sign up and compliance with all other program provisions?

Mr. COLLINS. This is a question within the administration—it's a question that we've been working with in trying to develop our statutory language for this proposal, which we have not released yet, so I don't know what our final proposal would look like, but generally, what we've been thinking is that the producer would be denied benefits that would have been received during the year in which the producer received more than $100,000 in off-farm income.

It certainly, from an administrative standpoint, would be easier to say, "If your off-farm income exceeded $100,000 last year"—and we can verify that—"then we're not going to let you participate in program benefits this year." However, we don't think that would be very fair because you might have a producer that had high off-farm

income last year, but lost his or her job and was without an income off the farm in the year in which they're receiving the payments—the next year.

So we would like to apply that in the way that I mentioned, but it does lead to administrative difficulties because we can't verify the producers' income. Let's take wheat, as a good example. In the wheat program, we make our deficiency payments during the same year in which the crop is harvested; therefore, we would be making the payments before we had the producers' income records to verify whether they had more than $100,000 off the farm, so we're still struggling with how to do that and not leave people in an unfair position.

Mr. CONDIT. Well, how do you do that? I mean, where I come from, the farmers' income fluctuates year to year, sometimes depending on disasters, sometimes—just some things that are not in their control, so they have to take an average over a fairly long period of time, so—just in all fairness—how are you going to do that?

Mr. COLLINS. I'm not sure of the answer to that yet. I think that we would nail that down if you proceeded with serious interest in this proposal.

Mr. CONDIT. I wrote these questions down, so that makes it pretty serious——

Mr. COLLINS. I would say that one thing we've thought about is, if your previous year's income was above $100,000, then we would not let the producer receive advanced deficiency payments, for example, and that if the producer received a loan, he or she would be obligated to repay the loan at the loan rate plus interest, so that the producer would not be eligible for marketing loan gains until the income could be verified—that would be one proposal.

Another proposal would be to use a certification process where the producers would certify that their off-farm income for that year is going to be less than $100,000. If it turns out to be more when the year's over, and we audit the records, the producer would have to repay the loan benefits and the deficiency payments.

Mr. CONDIT. I noticed my time's up. Maybe you can just give me a quick answer, if Mr. Chairman will allow me to do this—you're saying that the official proposal or program or suggestion has not been in its final draft form, but you're working on a time period where you have something——

Mr. COLLINS. Well, normally the statutory language of the President's budget proposals goes up very quickly after the budget proposals are released. I'm not exactly sure where the hold-up is at the moment, but I know that we have not released our statutory language yet, but I think we would like to do that as soon as possible.

Mr. CONDIT. Thank you, Dr. Collins.

Thank you, Mr. Chairman.

Mr. PETERSON. Mr. Nussle, do you have any questions?

Mr. NUSSLE. No, Mr. Chairman. I do not.

Mr. PETERSON. Dr. Collins, as you're probably aware, in the 1990—I guess, it was in the 1990 reconciliation bill—they had a problem with barley in deficiency payments, based on—it came out of the situation they had with the drought in 1988, and they were trying to correct the situation and they changed the way they cal-

culated the deficiency payments, which cost money, and they paid for it by putting a nickel assessment on malting barley. Are you familiar with that?

Mr. COLLINS. Yes, sir.

Mr. PETERSON. And evidently, what's going on—or some people think that—the premium is not as much as what the assessment is, so people are not declaring it as malting barley, they're selling it as feed barley to avoid the assessment, and there's some concern—I have a couple—three questions here on whether you think that this is happening, and whether there is any potential that we're going to lose market share to the Canadians in this area because of this phenomenon that's going on, whether—if we return to the way we used to calculate those deficiency payments, would there be any savings, and last, do you or the Department see any way that—short of some real adverse weather conditions—that we're going to see malting barley prices rise in the near term for any other reason other than weather?

Mr. COLLINS. I would say that's a good issue that you've raised, and it is one that we have been looking at. We've had the same concern about the malting barley assessment that you've raised.

It hasn't brought in the revenues, I think, that were projected back in 1990. It does appear that high-quality malting barley that's grown under contract, and there's a large spread between the feed barley price and the malting barley price, in the range of 80 cents to $1—that kind of barley is not being affected. It's the barley that's more close to feed quality, that could go either way—feed or malting—and it does look like the marketings of that malting barley are being affected the 5 percent assessment on malting barley.

I think the collections this year are something in the order of $8 million. Going back to the way it was before 1990, I'd have to look at our cost analysis of that—I can't recollect whether that reduces outlays.

My guess is that would reduce outlays, because the 5 percent collections are so small now and with the spread between the prices, using a farm price that includes malting barley prices to compute the deficiency payment, I think it's probably fairly safe to say that there would be a savings in that, and that could be viewed as a reconciliation option.

I do think, in retrospect, that assessment has probably created a little more distortion in that market than we first anticipated.

Mr. PETERSON. I also want to ask you a little bit about loan rates. There have been people that have been talking about raising the loan rates, as a way to maybe, potentially improve farm income, and we've seen some CBO studies that say that it's going to cost money over a 5-year period to do this, where you would think that it would maybe save money, because if you raise the loan rates, you should be reducing the deficiency payment exposure, but—first of all, do you agree with these CBO numbers?

Mr. COLLINS. I agree with the CBO numbers—that it costs money. I think it costs more than what CBO estimates.

Mr. PETERSON. Is that a timing difference more than anything else, or what?

Mr. COLLINS. No. Let's take the case of 1993–1994 crops. We're predicting a fairly substantial drop in the wheat price—down close

to where the basic loan rate is for wheat, which is $2.86 a bushel, and we're predicting a corn price that's fairly close to where it is this year—the basic loan rate for corn is about $1.99.

Around those average market prices, there's a distribution of prices, which means that some producers would sell corn for $1.95, or some producers would sell wheat for $2.80. If you were to raise the loan rates, as some have proposed, back up to the basic loan rate levels, those loan rates would be above what those people will market their grain for, and that will lead to some marketing loan budget exposure.

In addition to that, there's simply a——

Mr. PETERSON. Before you go any further, how much of that budget cost is associated with the marketing loan, do you know—in those estimates?

Mr. COLLINS. I can give you a rough estimate. We've looked at raising wheat and feed grains loan rates for the 1993 crops now, which would be an administratively difficult thing to do. Raising loan rates to the basic loan rate levels for the 1993 crops of wheat and feed grains would increase outlays in the order of $300 to $400 million, associated with those crop years, and there would be two components of that. There would be——

Mr. PETERSON. Now how much is the marketing loan?

Mr. COLLINS. It's a fairly—it's a smaller portion of that. Less than half of it would be due to the marketing loan. More than half of it would be due to the fact that the higher loan rates cause a little bit higher proportion of total stocks to be carried out under our loan at the end of the year, so part of it is that—part of it is——

Mr. PETERSON. Well, isn't part of it, too, that these loans aren't paid back until the next calendar year, or next—or whatever—fiscal year?

Mr. COLLINS. That's right. Part of it is an accounting problem. Whenever you pick a finite number of years to score a proposal over, if you have some program that raises loan activity throughout that finite number of years, you don't catch those repayments for the last year—for the first year that's outside your budget scoring period.

Mr. PETERSON. I understand that the—in the testimony this morning, and Representative Condit's—that the Department has finally appointed a CPA as their Chief Financial Officer, so maybe we'll get some accounting systems down there, so they can match these up and—do you suppose that will happen?

Mr. COLLINS. No. [Laughter.]

I'm sure we have accounting systems. Our problem is just finding them sometimes, so maybe they'll help us find all of our information.

Mr. PETERSON. Well, from what I know, I don't think you do have an accounting system. I don't think any of the agencies do, but that's another issue.

Mr. Emerson.

Mr. EMERSON. Thank you, Mr. Chairman.

Dr. Collins, you—in listening to your testimony—correct me if I'm wrong—you indicated a $15 billion savings over the period of 1994–1998?

Mr. COLLINS. That savings would be due to all of the provisions that were enacted in the two pieces of legislation in 1990.

Mr. EMERSON. And a reduction over that period of time of $1.5 billion in net farm income?

Mr. COLLINS. Yes, sir. On average.

Mr. EMERSON. It occurs to me that in your presentation here, that there are, indeed, a number of variables lying out there that could alter this situation extensively.

Mr. COLLINS. Absolutely.

Mr. EMERSON. I read this morning that Mr. Rostenkowski is questioning whether or not there's going to be an investment tax credit piece of legislation.

Mr. COLLINS. I saw that.

Mr. EMERSON. We know that a successful conclusion to GATT has been a very illusive thing. We hope for it, but we don't know that it will occur, and there will intervene a 1995 farm law here that could have some impact, so your presentation is based on what we now know, but there are some assumptions in there that are very, very risky.

Mr. COLLINS. Mr. Emerson, I was doing my best not to be a two-handed economist. I'm glad you were able to do that for me. I think you're absolutely right.

Whenever we look out into the future, there's always one thing we can be sure about—that we're going to be wrong.

Mr. EMERSON. I don't think you're trying to be wrong, I just think there's a lot out there to be digested that has not yet occurred, and that may not happen in the manner that is presently contemplated.

Also, I wondered, with the exception of ethanol, were there any concessions by the OMB on these task forces or whatever you served, relating to the barge fuel tax or the Btu Tax—by OMB?

Mr. COLLINS. I think OMB was in the role of being a broker in this process. I don't think they were taking a lead to actively promote one position or another. I think that the Department of Energy, the Department of the Treasury, the Environmental Protection Agency, and so on, all had strongly held positions, so I would not say that OMB was trying to push one position or another in any of these sessions.

To my knowledge, I don't remember—there were no substantive changes that would have altered the impact for farmers, other than the ethanol proposal. There were a number of changes with how these things would be administered, but as far as the bottom line price and dollar effect, there were none that I can recall.

Mr. EMERSON. Thank you.

Thank you, Mr. Chairman.

Mr. PETERSON. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Dr. Collins, I have two questions. First, you mentioned the—as you move flex acreage up to 25 percent, you anticipate some fallout of the farm program itself, as the incentive to participate becomes whittled down. Is that correct?

Mr. COLLINS. Yes, sir. That's part of the savings that comes from that proposal.

Mr. POMEROY. Do you have an evaluation, in terms of how high you push flex acreage, before you have a very substantial drop-off?

Mr. COLLINS. I haven't looked beyond the 10 percent proposal of the administration. I would be happy to take a look at that for you, if you would like.

Mr. POMEROY. No, that's all right. It looks to me like we're early in the point of walking down the path of just whittling away the farm program.

Mr. COLLINS. I think that's possible—I've heard that from a lot of farmers. I've heard that from farm organization leaders also, and I think that when you combine the program benefits with the restraints that are placed on farmers through conservation compliance—sodbuster, swampbuster, and so on—that I think, overtime, the programs are becoming less attractive for many farmers.

Mr. POMEROY. That leads me to my second question—particularly, looking at the difficulty of enforcing the $100,000 off-farm limitation, and frankly, I detected even a faint lack of enthusiasm in your own testimony on that component of the administration's proposals.

I wonder why it doesn't make more sense to look at supporting a base level of production—and not relying on means testing and things that are much more difficult from an enforcement standpoint, but supporting a base level of production—and if there's production over that, that's fine—it just isn't in the program—and letting market then, regulate the upper end of production, but supporting the lower end.

Mr. COLLINS. I think that's certainly a valid proposal. It's one that I've heard before. It came up in the 1990 farm bill debate, as you may know.

The way the proposal is normally structured, there's some kind of a tiering—the first so many units of production receive full support, or almost full support, the next so many units receive something less, and so on.

We have looked at various versions of that proposal overtime, and indeed, they can be structured in a way that changes the distribution of payments to producers—provides a higher proportion of payments to the smaller producers. They can be structured so that they do reduce outlays, but they also have their own inherent set of problems.

One of the problems is that by doing that, you've automatically created an incentive to get under the first threshold—to keep your farm small. You've created an incentive to reorganize or restructure or develop some kind of new arrangement for your enterprise.

Sometimes those proposals are coupled with elimination of the three entity rule and direct attribution. When those two things are combined, then, in fact, they can almost as surely be structured to save money.

One other thing I might mention is if you went to full support on those small acreages, that you would, of course, be giving up, probably, farm program flexibility.

Mr. EMERSON. It still would be easier—notwithstanding the prospect of restructuring for purposes of beating the tiered or base level of support to the programs—it still would be easier to police that, than the $100,000 off-farm income proposal, don't you think?

Mr. COLLINS. I'm not sure. Neither one is easy to police.

Mr. EMERSON. Fair enough.

Thank you, Mr. Chairman.

Thank you, Dr. Collins.

Mr. PETERSON. Mr. Minge, do you have any questions? We're going to—I think we'll probably finish up here, and then adjourn. We have about 5—8 minutes left, so if you have any——

Mr. MINGE. Let me quickly ask you a question, Dr. Collins. There's a great deal of concern, of course, that the farm program does contribute to the overall Federal budget, and with the pressures to reduce the deficit, it's obviously one of the areas that's under attack—going for a lot of criticism.

We have a certain number of programs, such as sugar, that are not financed with Federal dollars, but instead, are handled by quotas, and you could almost call it a two-tier pricing system—a domestic and a world market.

I'd like to have your comments on whether anything resembling that has been analyzed as a possible alternative for feed grains.

Mr. COLLINS. Not in some years. I think the last time we've looked at that kind of a structure would go back to the mandatory controls and decoupling debate of 1984, I think. I don't think we've looked at that in recent times.

It's in the realm of the proposals that could be conceptualized. It clearly is not a cost-free proposal, it's just what you want to call the cost. Instead of being a taxpayer cost, those proposals become a consumer cost, so the cost of those things is still quite large—it's just who's paying the freight.

Mr. MINGE. As I understand it, if one were to buy a bushel of corn—assuming that's available for sale in Western Europe—it would be anywhere from \$6 to \$7.50 a bushel if you went to a grain supply house, whereas here, it's about one-fourth that price, and I guess, there are many people who are mystified how the Europeans have managed with that type of a pricing system, where our own corn that's exported to them—and we have a pricing that, based on the world market, is providing them with a fraction of the payment.

Mr. COLLINS. European consumers have been willing to pay a lot more for their agricultural commodities than United States consumers, apparently.

I would say that that kind of a price, though, has not proved sustainable for the Europeans, as reflected in their own CAP reform proposals, where they've now substantially reduced the price of corn and wheat within the European Community this year.

Mr. MINGE. I have no further questions, in view of the time.

Mr. PETERSON. Thank you, Mr. Minge.

You have a plane to catch, as I understand it.

Mr. COLLINS. Yes, sir.

Mr. PETERSON. Mr. Emerson, do you have any further questions?

Mr. EMERSON. No further questions.

Mr. PETERSON. We may have some written questions for you to respond to.

Mr. COLLINS. We will be very pleased to answer them.

Mr. PETERSON. We appreciate you being with us today.

Mr. COLLINS. Thank you.

68-362 O - 93 - 13

Mr. PETERSON. Thank you.

The subcommittee will be adjourned.

[Whereupon, at 2:35 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF
KEITH COLLINS
ACTING ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE
THE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
U.S. HOUSE OF REPRESENTATIVES

April 22, 1993

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to discuss the economic effects on farmers of the President's economic proposals. Mr. Chairman, your invitation requested that several specific issues be covered, including the outlook for major U.S. crops, the commodity contribution to deficit reduction from the farm and budget legislation enacted in 1990, the farm and market effects of the President's proposals and the energy BTU tax. I will address each issue, beginning with the crop outlook.

Outlook Overview

The economic outlook for U.S. agriculture is generally similar to the situation prevailing during the past couple of years. Indicators of economic performance and farm household financial stress greatly improved between the mid-1980's and 1990, but the farm economy has moved sideways since 1990. One potential bright spot is the overall economy, with real Gross Domestic Product (GDP) expected to grow 3.1 percent this year and 3.3 percent next year under the President's economic package, compared with the anemic 0.6 percent during 1990-92. Over the next several years, moderate income growth will strengthen farm product demand and low inflation and interest rates will help control farm production expenses.

The President's economic stimulus package will help boost investment and consumer confidence, contributing to job growth in rural America. Rural economic activity is important to the majority of U.S. farm households. In 1991, only 20 percent of U.S. farm households received more income from farming than from off-the-farm activities.

U.S. agriculture is expected to continue benefiting from growth in international markets over the next several years. For 1992/93, U.S. agricultural exports are expected to be $42.5 billion, slightly above last year's $42.3 billion, and the second highest ever. Bulk exports will likely drop in value, more than offset by high value and processed product exports. U.S. export growth is restrained by slow economic growth in Japan and Western Europe and negative growth in Eastern Europe and the Newly Independent States of the Former Soviet Union (FSU).

In contrast, the developing economies are expected to grow 5-6 percent in 1993 and 1994, up from 1992's estimated 4.3 percent. Pacific Rim countries, the Middle East, and Latin America, particularly Mexico, are expected to gain.

Net cash farm income has plateaued since 1988 at $58-61 billion. Net cash income for 1993 is projected again to be at about this level, as larger crop and livestock receipts and larger government payments offset a moderate increase in cash production expenses. Our longer term baseline income projections are for generally rising cash receipts offsetting lower government payments and higher production expenses.

Consequently, nominal farm income rises 5 to 10 percent during 1994-1998, although not as fast as the rate of inflation.

Total farm asset values and farm debt have changed little since 1990, but remain much improved from the mid-1980's. No change is anticipated in the debt-asset ratio in 1993, which has been stable in the range of 16-17 percent since 1989. The ratio is expected to decline modestly during the remainder of the 1990's as farmers restrain the use of debt while asset values slowly increase.

In the mid-1980's, USDA estimated that over 10 percent of all farm businesses were vulnerable to bankruptcy; their incomes were below expenses and their debt-asset ratios exceeded 40 percent. Recent estimates show less than 5 percent of farms are now vulnerable, half the level of the mid-1980's. However, the percentage of marginal income farms--those with negative cash incomes but debt-asset ratios below 40 percent--account for 17 percent of commercial farms, those having gross annual sales equal to or greater than $40,000.

The Subcommittee has specifically requested an assessment of the outlook for major program crops, and I will turn briefly to that.

Wheat Outlook. In the 1992/93 marketing year which will be completed in a little more than a month, world wheat production is up 3 percent, total use is down, and global wheat stocks are expected to rise. With more production and weaker use, world wheat exports are forecast down 5 percent in 1992/93, but U.S. exports are expected to rise 3 percent.

Larger U.S. exports to India, North Africa, and other countries are offsetting lower exports to China and the FSU. With strong exports, U.S. ending stocks are expected to rise slightly to 520 million bushels, a below-average level relative to use. Reflecting this, farm wheat prices are expected to average 25 cents per bushel above a year earlier.

For 1993/94, the wheat Acreage Reduction Program (ARP) is 0 percent, down from 5 percent this season. Based on winter wheat plantings and farmers' spring wheat intentions, 1993-crop seedings are forecast at 72.3 million acres, unchanged from 1992. Production may be close to this year's level, and with more intense global competition expected and uncertainty over exports to the FSU, lower exports are in prospect, leading to higher carryover stocks and lower average wheat prices.

Feed Grain Outlook. Global coarse grain production rose over 5 percent in 1992/93 on the strength of the record U.S. corn crop. World use is increasing this season but only by about half as much as the increase in production, leading to higher stocks, with U.S. stocks accounting for all of the increase.

Although world coarse grain trade will be down, U.S. exports will be up 2 percent. Despite larger exports and a projected 12-million-ton increase in domestic feed use, U.S. feed grain stocks will nearly double in 1992/93. Ending stocks of corn are projected at 2.2 billion bushels, double the carryin level, which means about a 15 percent lower annual average corn price and sharply higher feed grain program costs.

For 1993/94, the corn ARP is 10 percent, up from 5 percent last year. During March, farmers indicated plans to seed 76.5 million acres to corn, down 2.8 million or 4 percent from 1992. With trend yields, production would fall about 10 percent. Prices may average slightly higher than prices for the 1992/93 crop year.

Rice Outlook. Global use is forecast to exceed production in 1992/93 for the second consecutive year. However, large exportable supplies among the major exporters, including the United States, have reduced prices below a year ago.

Large U.S. supplies and lower prices are expected to keep U.S. rice more competitive in global markets, with U.S. rice exports forecast to increase by 14 percent. The U.S. season-average price is expected to be nearly one-fifth below the $7.58 per hundredweight average of 1991/92.

For 1993, the rice ARP is 5 percent, up from 0 percent in 1992. Farmers indicated plans to plant 3.13 million acres, nearly the same as in 1992. Production is expected to be lower in 1993 with moderately higher prices.

Oilseed Outlook. World oilseed production is record high in 1992/93 due to the near-record U.S. soybean crop and larger South American soybean production. EC oilseed production is down about 1 million tons. In the United States, soybean production was the second highest ever but production of cottonseed and peanuts decreased, and except for safflower, production of minor oilseeds was lower.

Little change is expected in global use of protein meals and vegetable oils in 1992/93, slowed by consumption declines in Eastern Europe and the FSU. However, U.S. soybean exports are forecast up 11 percent, spurred by reduced world supplies of other oilseeds and higher EC imports. Despite the large crop and higher stocks, strong soybean use is expected to keep the season-average soybean price close to the $5.58 per bushel average of 1991/92.

In 1993, farmers expressed intentions to plant 59.3 million acres to soybeans, unchanged from 1992. A return to trend yields would mean lower production and stocks and higher season-average prices.

Cotton Outlook. World cotton use at 85 million bales will exceed production in 1992/93. But, global stocks remain relatively high at 39 million bales, putting downward pressure on prices. Despite a smaller crop in 1992/93, U.S. cotton stocks are expected to increase by 16 percent. Total U.S. use is down as higher exports from the FSU and China reduce U.S. exports. Domestic mill use is at its highest level since the 1950's.

Even though projected U.S. stocks are below the statutory target level of 30 percent of use, farm-level U.S. prices for February averaged only 52.9 cents per pound, about equal to the loan rate. The low prices are generating record high deficiency and marketing loan benefits for cotton producers.

In 1993/94, both production and use are expected to be larger. The ARP for upland cotton is down slightly from 10 percent to 7.5 percent. Farmers plan to plant 13.4 million

acres to cotton in 1993 about the same as 1992. Domestic use is likely to grow and exports increase as economies improve in Eastern Europe and the FSU and production problems in China continue. However, U.S. cotton stocks are expected to increase again in 1993/94.

Farm Program Spending. Very large 1992 harvests are expected to increase CCC spending for farm programs from about $10 billion in FY 1991-92 to an estimated $17 billion in FY 1993. Outlays for all program crops are expected to increase in FY 1993, led by feed grains estimated to increase by $3.4 billion, wheat by $0.6 billion, rice by $0.2 billion, and cotton by $1.0 billion. Spending on soybeans and minor oilseeds is projected to rise by less than $50 million in FY 1993 despite a near record soybean crop.

In the years ahead, we expect higher world and domestic prices and, as a consequence, lower farm program spending. Our current forecast is for CCC outlays to fall to about $12 billion in FY 1994 and remain in the $10-$11 billion range in FY 1995-98. These estimates do not include the President's proposed reductions in farm program spending.

The 1990 Budget Reductions

Mr. Chairman, you asked how the Food, Agriculture, Conservation, and Trade Act of 1990 and the Agricultural Reconciliation Act of 1990 (1990 Acts) affected outlays for farm price and income support programs for the 1991-95 period. The bipartisan Budget Summit Agreement in the fall of 1990 set an outlay reduction target of over $13 billion for agricultural

programs. The 1990 Acts were projected to achieve that mark in part with $11.2 billion in reductions in farm price and income support programs. This was an estimated 21 percent reduction from projected baseline outlays of $54.4 billion during FY 1991-95, which assumed an extension of the Food Security Act of 1985 (1985 Act). The reductions were achieved with reduced payment acres, marketing assessments and loan origination fees, changes in ARP's and changes in the method of computing deficiency payment rates.

Our analysis indicates that the outlay reduction projected in 1990 continues to hold. Our current baseline projects that commodity program spending will total $59.9 billion during FY 1991-95, up $5.5 billion from the 1990 Farm Bill baseline due in part to lower-than-expected prices for corn and cotton and in part to disaster payments and higher export program costs than anticipated in 1990.

Spending during FY 1991-95 would be about $72 billion without the provisions of the 1990 Acts. The 1990 Acts reduced farm program costs by an estimated $2.7 billion during FY 1991 and FY 1992 compared with an extension of the 1985 Act. These realized savings plus outlay reductions we now project during FY 1993-95 total about $12 billion for the 5-year period, FY 1991-95, slightly above the 1990 target of $11.2 billion. For FY 1991-95, outlays for feed grains are projected to be down about $7.4 billion, wheat $2.8 billion, upland cotton $1.0 billion, and rice $0.3 billion. Outlays for soybeans and minor oilseeds will be down by about $50 million.

Beginning with the 1994 crops, deficiency payments for grains will be based on the lesser of the season-average price and the 5-month price plus 10 cents for wheat and 7 cents for feed grains. Seventy-five percent of the projected deficiency payment rate for corn and sorghum and 100 percent of the projected rate for barley, oats, and wheat must be made as soon as practicable after the end of the first 5 months of the marketing year. These provisions will reduce outlays by an estimated $3.0 billion for feed grains and $0.8 billion for wheat during FY 1994-98.

The budget resolution period for the President's proposal is the 1994-98 fiscal years. During this period, the provisions of the 1990 Acts would account for about $15 billion in reduced outlays for the target price commodities, compared with an extension of the 1985 Act.

The appendix to this testimony contains charts showing the projected reductions by commodity.

The Administration's Agricultural Proposals

The Administration presented its proposed economic program on April 8, which detailed and updated the proposals presented by the President on February 17, 1993. The proposed economic package would reduce the Federal budget deficit and stimulate the economy. The proposed economic program includes reductions in farm program and other government program spending, increases in government revenues, an expansion in programs to aid low income households, and programs to increase economic growth and employment.

The President proposed reducing farm program spending by increasing the so-called "normal (unpaid) flex acreage" to 25 percent, eliminating the 50/92 and 0/92 programs, targeting deficiency payments and other program benefits to farmers with off-farm incomes below $100,000, limiting annual payments to wool and mohair producers to $50,000, eliminating the honey program, increasing assessments and loan origination fees on nonprogram crops and milk, and extending the current level of spending for the Market Promotion Program (MPP). The increase in normal flex acres, elimination of the 50/92 and 0/92 programs, and the increase in assessments would begin with the 1996 marketing year or calendar year for milk. The remaining proposals would become effective in FY 1994.

The Administration estimates that these proposals would reduce farm program spending by $5.5 billion during FY 1994-98 with $5.1 billion being saved in FY 1996-98. The increase in unpaid flexible acreage to 25 percent and eliminating the 50/92 and 0/92 program account for two-thirds of the estimated reduction in farm program spending. Increased assessments and loan origination fees account for about a tenth and targeting deficiency payments account for slightly more than a tenth. The President's farm program proposals to increase normal flex acres to 25 percent, eliminate 50/92 and 0/92 and target payments to farmers with off-farm incomes below $100,000 would reduce Commodity Credit Corporation (CCC) outlays for feed grains by an estimated $2.3 billion, wheat by $1.3 billion, upland cotton by $0.4 billion, and rice by $0.4 billion. Outlays for oilseeds

would be reduced by about $40 million because of higher loan origination fees.

The Administration's proposals for outlay reductions should be useful to the Subcommittee in achieving the House Budget Resolution goals. Therefore, I will discuss the Administration's major proposals and their expected effects.

- Eliminate 0/92 and 50/92. At their inception, the 0/92 and 50/92 provisions were projected to be outlay neutral. Farmers that were planting just to receive a deficiency payment could instead idle acreage under the provision and receive the same payment. To avoid increased outlays, no payments were to be made on 8 percent of payment acres, which was the estimate of average underplantings on which payments were not received prior to the introduction of 0/92 and 50/92. Program experience indicates that use of these provisions has been higher than first anticipated, resulting in an increase in paid idle acreage in place of unpaid idle acreage.

In 1992, farmers placed 11.2 million acres in 0/92 and 50/92 of which 0.3 million acres were planted to minor oilseeds. About 7 percent of the feed grain base, 6 percent of the wheat base, 3 percent of the upland cotton base, and 11 percent of the rice base on all farms in compliance with ARP requirements were in 0/92 and 50/92 in 1992. Payments to producers, who participated in 0/92 and 50/92 in 1992, were $209 million for feed grains, $91 million for wheat, $41 million for upland cotton, and $72 million for rice. Participation in 0/92 and 50/92 is expected to increase as CRP contracts expire beginning in 1996.

Eliminating the 0/92 and 50/92 options would cause many farmers to increase plantings in order to receive deficiency payments on acres they formerly idled. Higher plantings would lower prices and raise deficiency payments. Higher ARP's would have to be used to make elimination of this provision production neutral and to reduce outlays, thereby replacing the formerly paid idled acreage with acres idled under the ARP. For most crops, ARP increases of 5-10 percent would leave production about unchanged if 0/92 and 50/92 were eliminated. Eliminating 0/92 and 50/92 beginning with the 1996 crops would reduce CCC outlays by between $1.1-1.8 billion, with the lower savings associated with normal flex acres of 25 percent and the upper savings associated with 15 percent. Producers would still be permitted to place land in conserving use and protect their crop acreage base.

- <u>Increase Normal Flexible Acres to 25 Percent of Crop Acreage Base</u>. Increasing normal flex acres provides a direct reduction in deficiency payments by reducing payment acres. Because this option reduces the attractiveness of farm programs, there is also a decline in participation, which also reduces outlays. This option for reducing payments is probably the most efficient and effective way to reduce deficiency payments. It is effective because changes in the market or actions by the producer are not likely to reduce the savings. Regardless of where the market price moves in future years, the percentage reduction in payments is maintained unless there is base acreage expansion or increased participation, both of which are unlikely.

Increasing normal flex acres is efficient because this option opens up more of the producer's permitted acres to planting decisions that are primarily determined by market fundamentals. And, farmers use this flexibility. Normal flex acres accounted for 84 percent of all acres flexed in 1992. In 1992, farmers flexed 4.9 million acres to nonprogram crops. An additional 3 million acres were flexed from one program crop to another. The end result has been that consumers benefited from greater production of crops that farm programs have made scarcer than otherwise, and program crop farmers benefited from being able to plant higher return alternative crops and offset some of the reduction in deficiency payments.

The Administration estimates that increasing normal flex acres to 25 percent beginning with the 1996 crops would reduce CCC outlays during FY 1994-98 by $2.3 billion, but the savings could be as high as $2.8 billion, with about half of that coming from feed grains.

- Targeting Deficiency Payments and Other Program Benefits to Farmers with Off-farm Income Less Than $100,000. This option is similar to payment limitation provisions in that it is an option for reducing spending by changing the distribution of payments to producers. This version of targeting excludes only those who do not principally earn their living from farming and have very high off-farm incomes. If the proposal begins with the 1994 crops, the Administration estimates it would reduce farm program spending by $610 million during FY 1994-98.

Admittedly, targeting is difficult to administer and outlay reductions are difficult to achieve, and therefore, to estimate. The large difference in estimated savings between USDA and the Congressional Budget Office stems from different assumptions of how effective those with high off-farm incomes would be in restructuring their farm enterprise to avoid a loss of benefits.

As proposed, this option would apply to producers. The most relevant database for estimating the effects is to use Schedule F filings with the IRS. Recent data suggest that less than 2 percent of all Schedule F filers have off-farm income in excess of $100,000 per year.

- Assessments. The President proposed increasing assessments and loan origination fees on nonprogram crops and milk by 67 percent beginning in 1996. This would reduce support to nonprogram commodities similar to that proposed for target price crops. These higher assessments and loan origination fees would reduce CCC net outlays by an estimated $540 million during FY 1994-98 with all of the savings occurring in FY 1996-98.

The loan origination fee on CCC oilseed price support loans would increase from 2 to 3.33 percent or from $0.10 per bushel for soybeans to $0.17 per bushel. The Administration estimates this would reduce CCC outlays for oilseeds by about $40 million during FY 1994-98.

Effects of Proposed Budget Reductions on Farm Income

The Subcommittee requested an appraisal of the effects of outlay reduction and other proposals on farm income. While the Administration has proposed reductions in CCC farm program

spending of $5.5 billion over the FY 1994-98 period, the Congressional Budget Resolution has set a target of about half that size. Using the Congressional budget resolution target for farm program spending cuts, we have estimated aggregate U.S. farm income during 1994-98 taking into account the effects of both the agricultural and the major nonagricultural proposals on agriculture. The estimated effects on farm income are based on President Clinton's Economic Plan and will change depending on the mix of programs Congress adopts. The estimated changes in farm income exclude the effects of the proposed increase in the Earned Income Tax Credit (EITC) and the Investment Tax Credit.

We estimate net farm income declines modestly during 1994 and 1995. The reductions increase over the next several years, peaking in 1997 and 1998 when the commodity program proposals and the energy tax are fully implemented. The annual reductions begin to decline thereafter. During the 1994-98 period, our projections show net farm income averages about $1.5 billion per year lower compared with our current baseline. This would leave farm income about equal to recent levels. One-third of the reduction is due to lower government payments and two-thirds due to higher farm production expenses. Alternative private sector estimates of interest rates would lead to smaller reductions in farm income.

Several factors combine to increase total farm production expenses. The energy tax raises fuel costs directly and other input costs indirectly, based on their embodied energy component. At 1991 farm production levels and energy use rates, annual

production expenses due to the energy tax when fully phased in could be as much as $900 million higher. However, substitution of more energy efficient practices and equipment over time would reduce this estimate. Also, feedstock energy prices may be lower than otherwise to the extent that the energy tax leads to overall energy conservation in the U.S. economy. This would help offset higher fuel costs in agricultural chemical production.

Interest and inflation rates are other cost factors. The Administration's proposals are expected to raise overall economic growth, which will slightly raise inflation rates and interest rates. This will increase the costs of farm inputs that are inflation sensitive and raise overall interest expenses slightly, mainly for short-term nonreal estate debt.

Several private forecasting firms project annual average interest rate reductions of 0.5 to 1.25 percentage points due to deficit reduction. Such rate changes would reduce farm interest expenses by $0.75 to $1.5 billion annually, rather than the increase we project.

Net farm income is a measure of economic activity. It is not a measure of household farm income. The projected decline in net farm income will translate into a reduction in household net farm income for many producers. However, some farm households will have offsetting reductions in tax liabilities due to the Administration's proposed increase in the EITC and the Investment Tax Credit. Changes in tax liabilities are not accounted for in net farm income.

Another point is that the initial income reductions due to lower income support will not persist for all time. Lower support reduces the return to farming compared with other industries. That ultimately means reduced investment in agriculture and reduced asset values. Farmers will also adjust production practices and reduce output. These changes will eventually result in returns on farm assets that are about the same as before the income support reductions and are comparable to similarly risky nonfarm investments.

The Chairman asked which farms would face the greatest financial stress under the budget reduction proposals. This is a very difficult question because a producer's financial condition depends on a wide variety of factors. The greatest stress probably would be faced by those producers that are already in financial stress and incur the highest production cost increases combined with the greatest reduction in program benefits.

Our financial stress data indicate that farm operator households having negative farm incomes and high debt-to-asset ratios account for about 5 percent of all operator households. Many of the households with very low or even negative farm incomes earn considerable income from off-farm employment. Therefore, considering only the farm operator households with annual sales above $40,000, the vulnerable farms currently are most prevalent in the Southeast, Delta, and Southern Plains regions, followed by the Northern Plains. Vulnerability is greatest for livestock and poultry producers. For crops,

vulnerability rates are slightly above average for grain producers and higher still for cotton producers.

It is difficult to draw a conclusion on vulnerability rates alone as a measure of overall financial stress for a class of commodity producers. For example, while cotton and poultry show higher than average vulnerability rates, the median net farm income per farm operator household is somewhat above the U.S. average for poultry producers and nearly double the U.S. average for cotton producers. Also, if interest rates decline under the deficit reduction proposals, the vulnerable farm households will be substantial beneficiaries. Although vulnerable households account for a small percentage of farms, they hold more than 20 percent of farm debt. Vulnerable farms are also likely to qualify for the EITC.

The target price crops are likely to face the largest reductions in support and these crops have some of the highest rates of energy use in production. As a percent of variable production expenses, energy costs are greatest for rice followed by sorghum, cotton, and peanuts, then wheat, corn, the other feed grains and soybeans. For livestock, energy intensity is about half to three quarters the rate of the major field crops.

Considering all the above factors, it seems likely that farm operators producing target price commodities, particularly cotton and rice, that are located in the South and Southern Plains, and that irrigate a high portion of their crops, and that have high debt levels are likely to face the greatest impact of the deficit reduction proposals. However, many low income farms are likely

to face little change in the household incomes and may even benefit due to the proposed expansion in the EITC.

Other Administration Proposals That Will Affect Agriculture

Several of the Administrations nonagricultural proposals affect agriculture and should be mentioned to provide a context in which the commodity proposals are evaluated. Let me stress none of these proposals are directly targeted at farmers. They affect all sectors of the economy.

- Energy Tax. The energy tax discussed above with production expenses is an important revenue proposal of the Administration. U.S. agriculture is slightly more energy intensive than nonagricultural industries and consumes about 2 percent of the Nation's energy. Farmers used about 1.4 billion gallons of gasoline in 1991, mainly in farm trucks and older equipment. Gasoline is a principal fuel on smaller farms. About 2.8 billion gallons of diesel fuel was used in 1991, the major fuel on large and mid-size farms for field operations. LP gas, natural gas and electricity are also used for drying, irrigating and heating structures.

When fully phased in, the energy tax would increase farm expenses on fuels and oils by $400 million per year or about 8 percent at current rates of use. Electricity costs would rise by $100 million per year or about 4 percent and most other inputs would rise in cost as they involve energy in their production and distribution. Based on current input use, these indirect costs could be as high as $400 million, bringing direct and indirect costs to as much as $900 million. The actual increase would

likely be less than this for two reasons. First, farmers will use energy more efficiently over time, including changes in equipment, crops planted, cultural practices and fuels used. Second, feedstock costs important for agricultural chemicals, may decline as less energy is used nationally.

- Inland Waterway User Fee. The user fee will add $1.00 per gallon to the tax on fuel used by barge operators who transport 23 percent of all grain and 48 percent of grain exports. When fully phased in, the proposed inland waterway user fee is expected to produce revenues sufficient to cover all the costs of operating and maintaining the system, which is now heavily subsidized by the taxpayers.

Corn, soybeans, and wheat are the primary agricultural commodities transported on the inland waterway system. We estimate that the waterway fee will increase the average cost of shipping a bushel of corn to the Gulf by 6.3 cents. Estimated tax receipts from agricultural commodities moving on the water system are about $140 million.

Although the proposed increase in the fuel tax will be collected from barge operators, at least some of the increased costs of operation will be passed back to farmers in the form of lower prices received for commodities shipped on barges. The user fee will not be fully passed back as shippers switch to alternative modes of transport, elevator and large operators absorb part of the cost increase, and end users pay more for the product.

The waterway tax would likely lead to higher deficiency payment outlays which would offset some of the farm price

decrease. On balance, the fee is expected to generate more revenues from agriculture shipment than the increase in deficiency payments.

- Income Tax Provisions. The Administration's tax proposals will benefit farmers. Most farmers will be eligible for the permanent investment tax credit for small businesses. This will reduce the cost of capital and lower Federal income tax liability for farmers and rural nonfarm businesses. Farmers spend $12-14 billion annually on new equipment. Because the percentage rates of the tax credit decline in 1995, the biggest spur to investment will be in 1993 and 1994. Based on recent farm equipment purchases, the tax credit would potentially total about $750 million in 1993. Potential benefits are smaller after 1994. During 1994 and 1995, these benefits are likely to offset the costs imposed on producers by the energy tax and the farm program proposals, which have their largest impacts in 1996 and beyond.

Farmers will benefit from extension of the 25 percent deduction for health insurance costs and changes to the EITC. The proposal to simplify and expand the EITC would benefit low-income workers and self-employed individuals in rural areas, including farmers. This proposal would mean more disposable income and a better quality of life for qualifying low-income farm and nonfarm households. The high incidence of working poor in rural areas makes this proposal especially important for rural America. Since farm household poverty rates are nearly twice the national average, this provision will be important for helping to relieve farm financial stress.

As an example, a farm household with two children and an earned income of $11,000 in 1995 would have an EITC of $3,375, $1,865 more than the 1993 credit. This benefit would likely offset the proposed energy tax and farm program effects on income.

- Rural Development. The economic stimulus package includes specific rural development initiatives that provide needed assistance for the special concerns of rural areas. For example, the Administration proposes FY 1993 supplemental spending authority for an additional $470 million in loans and $280 million in grants for the Rural Development Administration to help rural communities obtain water and waste disposal systems and comply with clean water standards. In FY 1994, the budget recommends loan increases of $280 million and grant increases of $150 million over FY 1993 appropriations. When this money is spent on constructing water and waste systems, the community infrastructure is improved, rural communities become better places to live, and jobs are created. Employment impacts will vary by project but typically, 17 direct and indirect jobs are created for each $1 million in construction outlays. The FY 1993 proposal alone would create nearly 13,000 jobs for rural farm and nonfarm residents over a 5-year period.

Other proposals will increase community facility and business and industry loans, increase loans and grants to help repair or rehabilitate rural low income housing and to foster rural single family home ownership. Still other proposals focus on the protecting people and the environment. Stimulus spending of $85 million is proposed for protective watershed projects and

hazardous waste clean-up at aging Federal agricultural research sites.

Conclusion

The Subcommittee has a difficult task ahead. Deficit reduction and economic growth will benefit Americans. Farmers that can adjust and those that will benefit from income tax provisions or stronger rural economic growth may incur minimal income loss or even gain, particularly small, low-income households. Also, if deficit reduction leads to lower interest rates and lower exchange rates, these developments would benefit many farmers.

Finally, the effects of deficit reduction proposals highlight the need for demand expansion. A stronger U.S. economy can promote faster global economic growth. NAFTA and the Uruguay Round negotiations under the auspices of the GATT also offer opportunities for expanded trade. Achieving these agreements would go far in increasing farm income.

Mr. Chairman, that completes my testimony and I will respond to any questions you or other members may have.

(Attachments follow:)

Table 1. Comparison of FY 1994-98 Budget Savings Estimates Under the Administration's Proposals for Price and Income Support Programs (million dollars)

Proposal	ADMIN	CBO	FAPRI	H. RES
Increase unpaid flexible acres to 25 percent in 1996	2,300	2,047	3,046	
Eliminate 0/92 and 50/92 programs starting in 1996	1,460	1,037		
Increase assessments on nonprogram crops in 1996	540	644	494	
Extend Market Promotion Program cut	260	234	100	
Target payments to farmers with off-farm incomes below $100,000	610	262	262[1]	
Limit payments on wool and mohair to $50,000 per person	278	129	56	
Eliminate honey subsidies	35	61	76	
Subtotal	5,483	4,414	4,034	2,700

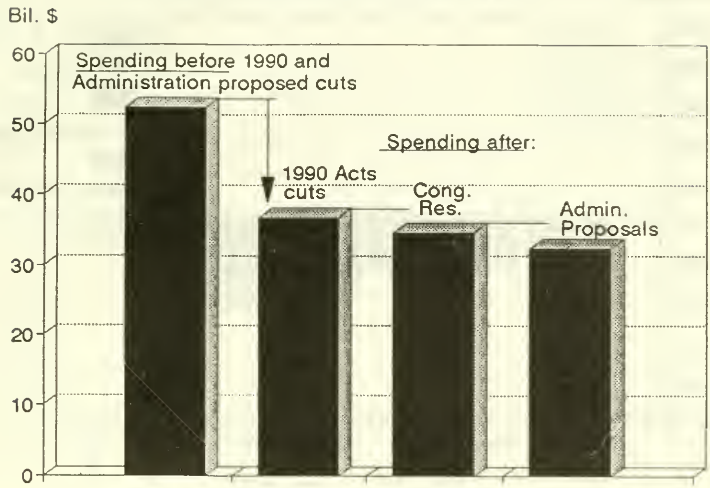
[1]CBO estimate.

Source: CBO and FAPRI testimony before the House Agriculture Subcommittee on General Farm Commodities, March 23, 1993

CBO=Congressional Budget Office
FAPRI=Food and Agricultural Policy Research Institute, University of Missouri and Iowa State University

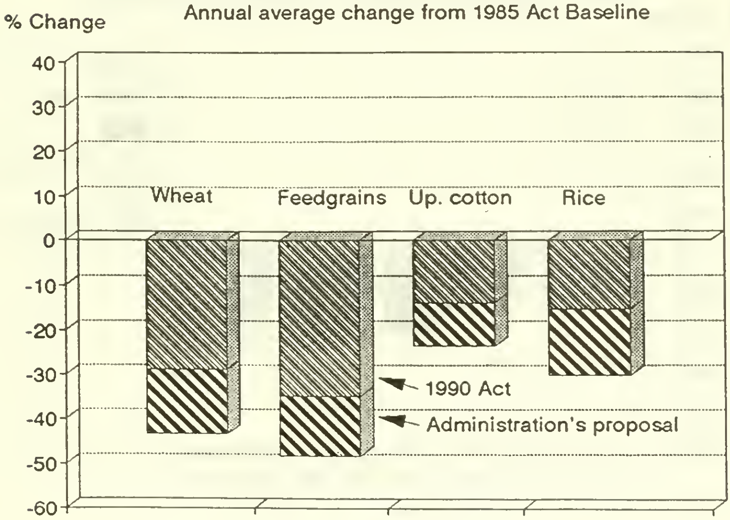
TOTAL CCC OUTLAYS & REDUCTIONS, 1994-98

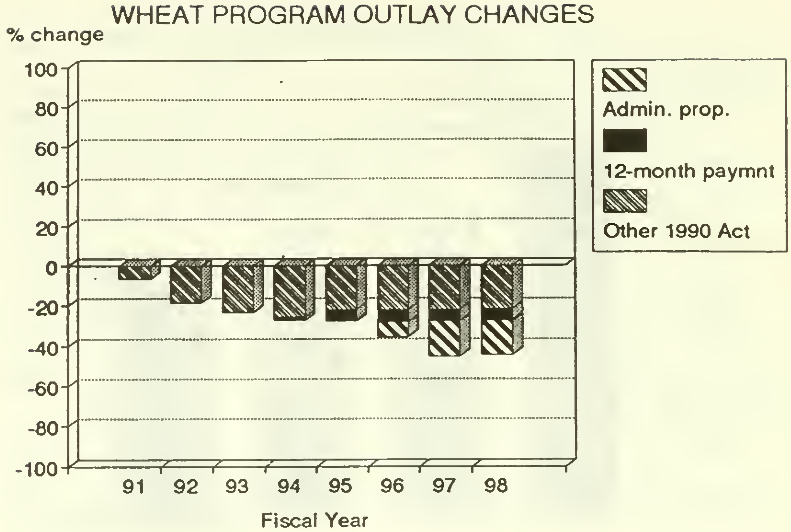
Target price commodites & oilseeds

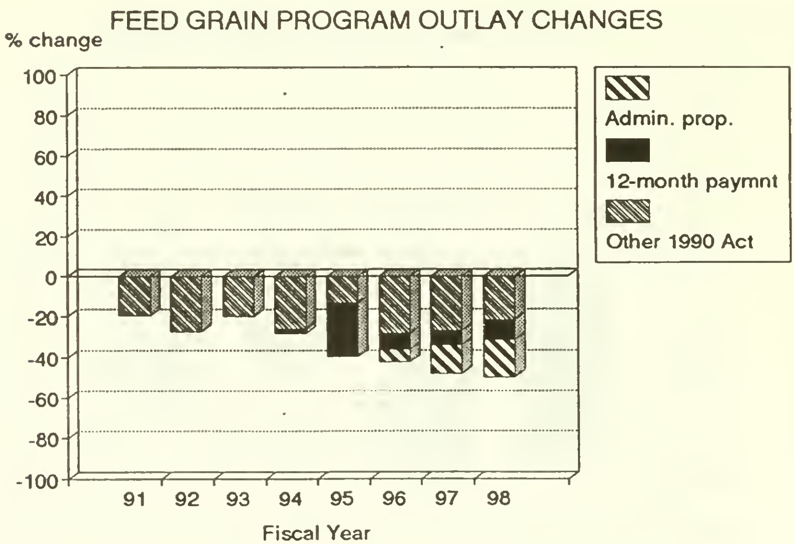


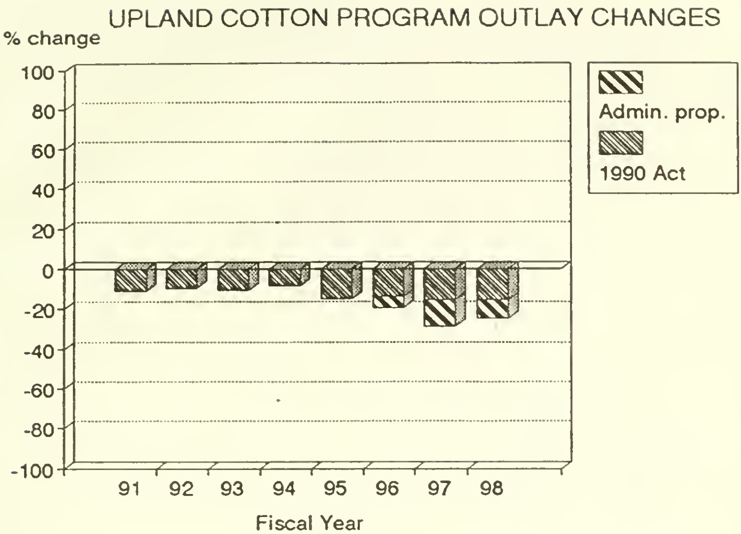
PROJECTED CCC OUTLAY CHANGES, FY1994-98

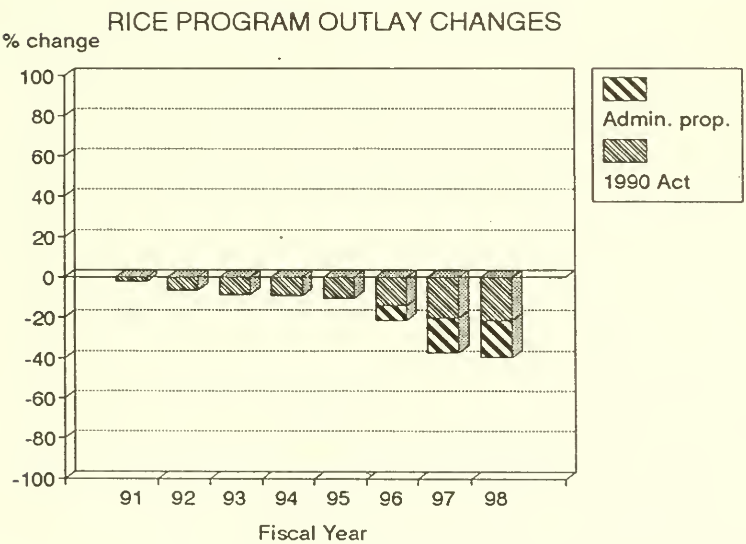
Annual average change from 1985 Act Baseline




WHEAT PROGRAM OUTLAY CHANGES
% change
100
80
60
40
20
0
-20
-40
-60
-80
-100
91
92
93
94
95
96
97
98
Fiscal Year
Admin. prop.
12-month paymnt
Other 1990 Act


FEED GRAIN PROGRAM OUTLAY CHANGES
% change
100
80
60
40
20
0
-20
-40
-60
-80
-100
91
92
93
94
95
96
97
98
Fiscal Year
Admin. prop.
12-month paymnt
Other 1990 Act


UPLAND COTTON PROGRAM OUTLAY CHANGES
% change
100
80
60
40
20
0
-20
-40
-60
-80
-100
91 92 93 94 95 96 97 98
Fiscal Year
Admin. prop.
1990 Act


RICE PROGRAM OUTLAY CHANGES
% change
100
80
60
40
20
0
-20
-40
-60
-80
-100
91 92 93 94 95 96 97 98
Fiscal Year
Admin. prop.
1990 Act

ISBN 0-16-041554-3
90000
9 780160 415548